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Luxury brand's expansion in China

- Opportunities and possible strategies

Bachelor thesis in International Business

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Abstract

Since the economic reform of China in 1978, the country has been under a process of industrialization and modernization. The average household income has risen, where the proportion of middle-class households, earning more than RMB 3 500 per month, has increased. In addition, there is a great share of the ‘China elite’, which consists of the upper middle-class and the very wealthy. Due to China’s enormous market of 1.3 billion people and the growth of wealthier households, the country has become the largest market for luxury. Many luxury brands are established in the market today, some with a greater presence, others more limited. The aim with our thesis is to investigate potential opportunities, in the aspects of customers and cities, for a luxury brand to consider when it seeks to expand in this vast market of China. We will also look into possible marketing strategies that luxury brands can apply. We conducted our study by looking at available secondary data, and have ensured the credibility of our study by evaluating various sources regarding the information required in order to answer our research questions. To further support our empirical data and analysis, we have conducted a case study of Burberry, which is an international luxury brand that has succeeded exceptionally well in the Chinese market. The result of our findings is that in the perspective of customers, they can be divided into demographic or psychographic views. The four demographic groups identified can exhibit different psychographic attributes. However, a demographic group can respond very well to a specific psychographic view. For a luxury brand that wants to succeed in the Chinese market, a sustainable customer base would consist of all segments from the both perspectives. Regarding the important cities, apart from the major cities Beijing and Shanghai, we have recommended five cities with potential growth in luxury consumption in the up-coming future. Some possible strategies that luxury brands can apply in order to pervade the Chinese market are using local faces and celebrities in their advertising, having an easy navigation of its websites that provide e-shops and different language choices, and most importantly, highlighting its specific firm advantages and bring forth its brand heritage in its products and promotions. It is also essential to have great patience when expanding in a market like China where the culture, norms and values highly differs from the West.

Keywords: Luxury industry, Luxury brands, China, Burberry,

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1 Introduction

1.1 Background

There are differences between a fashion and a luxury brand. In order for a fashion brand to be classified as a luxury brand, three criteria must be achieved; it needs to have a strong artistic content, it is the result of craftsmanship and it must be international (Chevalier & Lu 2010). Thereby, the internationalization process of a luxury brand is essential for it to be recognized as one of the most prestigious brands worldwide. A report from Goldman Sachs argues that over the next 50 years, the BRIC countries (Brazil, Russia, India and China) will become forces to be reckoned with in the world economy (Som, 2009). Consequently, the population of BRIC countries will have an increased income with a stronger purchase intention and considerably more desire for luxury products, particularly the population in China which is the fastest growing economy today. Due to the specific characteristics of the luxury fashion industry, such as high investment in flag-ship stores, inventories, advertising and promotional activities, gaining profit in a huge market like China requires time, knowledge and an overall comprehension of cultural disparities and the way business is conducted (Chevalier & Lu, 2010).

After the economic reform in China in 1978, when the market opened up, a significant increase of foreign direct investment was recognized. The main motive for corporations to establish in China was to gain access to the market of a large population and rapid economic growth (Rugman, 2001). China has been the fastest growing market regarding the world of luxury products and continues to be so; it is forecasted that China will consume around 29% of the world's luxury goods by 2015. With a customer base of 1.3 billion consumers, luxury brand companies would not want to miss out on this immense market opportunity (Wu, 2009).

1.2 Problem focus

The focus of the study will be on the expansion of established luxury brands in the Chinese market. In recent years, many luxury brands have made establishments in China; therefore, it is interesting to further study the potential expansion opportunities. Today, only a small fraction of China's immense population has the fortune to buy luxury products, but the potential consumer base is increasing as the Chinese are getting wealthier (KPMG, 2008). This study will be concentrated on targeting the so called 'new riche', but as well as the growing middle-class that could potentially be consumers of luxury products in the upcoming future (Chevalier & Lu, 2010).

Another factor to be taken into consideration is that China needs to be recognized as several markets with diversified consumers, which makes local adaption of products and marketing necessary (Gao, Norton, Zhang & To, 2009). With an increasing sophistication of the luxury market in China, different tastes and preferences between cities and demographic segments are becoming more noticeable, and consumers seek to understand brand values and their heritage (KPMG, 2008). In addition to the potential 'new riche', new possible locations in

China implying second-tier cities are also an expansion opportunity. We will investigate which cities are considered the most potential ones for luxury companies to target.

The second part of the thesis will focus on relevant corporate strategies for luxury brands that can assist them in a successful expansion in China. We choose to focus on the marketing strategy, as this is considerably the most important function for a luxury brand. We believe that in order for a luxury brand to succeed worldwide, the company and the products need to have an accurate communication according to the brand value, heritage and identity. Since luxury is high-priced in relative terms, products, advertisements and promotional campaigns need to speak the same culture and aesthetic code. To further look into how luxury brands can successfully expand in China, we choose to do a case study of the luxury company Burberry, which is an exemplary brand that has succeeded well in the Chinese market.

This thesis will provide information for foreign luxury brands with establishments in China that search for expansion opportunities. It will provide them certain strategic tools of how to capture potential customers in new geographical targets.

1.3 Research questions

The thesis will comprise a study of the luxury industry and the luxury market in China. The special characteristics of the industry will be elaborated in order to understand the fundamentals. We aim to investigate the expansion opportunities available for luxury brands in China; prospective cities with great growth potential and a credible customer base. We will continue to look at the possible strategies within the marketing field that can be adopted by brands in order to further expand in China. The conceptual frameworks are chosen to be best applied to companies within the luxury industry with establishments in China. Our research questions will be:

RQ1. What are the potential opportunities, in the aspects of consumers and cities, to considerate when luxury brands choose to further expand within China?

RQ2. What possible strategies, in the aspect of marketing, can luxury brands apply for them to carry out a well-performed expansion within the Chinese market?

1.4 Theories for analysis

In order to answer our research questions, a few selected frameworks are applied. To start out, we will study Dunning's electric paradigm where the three components, owner-specific (O) advantages, localization-specific (L) advantages and internalization (I) advantages together form the OLI-paradigm. Dunning & Lundan (2008) explain four different types of incentives to why MNCs engage in different kinds of overseas activities, where we will study the theory of the market-seeker as it is the most relevant to our study. Rugman (2010) has further developed Dunning's OLI-paradigm into the FSAs-CSAs matrix, where he defines firm-specific advantages (FSAs) as the O-specific and I-specific advantages of a firm, and country-specific advantages (CSAs) as its L-specific advantages. The OLI-paradigm by Dunning and

the CSAs-FSAs framework by Rugman are general theories within international business regarding the internationalization of firms. Related to internationalization is the expansion, where firms expand with a focus on either geographical development or operational extension, or a combination of both. Therefore, the OLI-paradigm and the CSAs-FSAs framework will be elaborated as it is important to understand the motives behind expansion, which will help to answer our research questions.

Rugman (2005) argues that the FSAs-CSAs matrix can be used as a strategic management tool, where the framework is focused on the importance for MNCs to first define the strengths and weaknesses of their FSAs and CSAs in order to formulate their strategic moves. Several strategic options are available according to Rugman & Collinson (2009). International marketing strategy is relevant to focus on regarding the luxury industry, as it is by marketing activities that a luxury company emphasizes its firm-specific advantages.

1.5 Outline

The thesis starts with an elaboration of the chosen conceptual frameworks in chapter 2, where the main theories are discussed. Chapter 3 is dedicated to explaining the specific characteristics of luxury and gives an overview of the global luxury market. The methodology in chapter 4 clarifies how the thesis has been carried out, what kind of limitations there are and describes the quality of our study. The empirical work is presented throughout the following chapters, where an analysis in the end of each chapter summarizes our main findings. In chapter 5, the Chinese luxury market is identified, where the focus is on potential opportunities in the aspects of consumers and urban cities in China. Having identified the opportunities, it comes naturally to frame marketing strategies that are important when conquering new markets and capturing customer segments. Chapter 6 provides certain available marketing activities for luxury brands that are appropriate in the Chinese market. To further support the empirical data, a case study of Burberry is featured in chapter 7. A FSAs-CSAs analysis of the firm is presented followed by a discussion of the four P's within its marketing strategies. The final chapter includes conclusion and implications for further studies.

2 Conceptual framework for analysis

2.1 Dunning's OLI-paradigm

To analyze why MNCs chose to invest in foreign countries, Dunning's electric paradigm is applied as it comprises explanations of overseas value-adding activities that MNCs engage in (Dunning & Lundan, 2008). The paradigm specifies a set of three conditions which are essential for a company to fulfill when it chooses to expand its operations to foreign countries. The three conditions defined are *owner-specific* advantages, *localization-specific* advantages and *internalization* advantages which together form the 'electric' OLI-paradigm (ibid.).

2.1.1 Owner-specific (O) advantages

Of the three components, owner-specific (O) advantages, also defined as firm-specific advantages (FSAs) are the most difficult yet critical to address. It implies that a company must possess certain unique competitive advantages towards external companies, often in foreign countries (Rugman & Collinson, 2009). The owner-specific advantages shall overcompensate the disadvantages of competing with local companies in their domestic market (Zentes, Morschett, & Schramm-Klein, 2007). These advantages are exclusive for the company in possession of them, at least for a period of time, and they mainly take the form of intangible assets such as firm-specific knowledge advantages, skills in management and marketing etc. (Rugman & Collinson, 2009). Well established trademarks and brand names may be accounted as valuable owner specific-advantages, and are considerably the most vital within the luxury industry.

2.1.2 Localization-specific (L) advantages

The localization-specific advantages, known as country-specific advantages (CSAs) decide the important elements of place where a company can employ other factors such as natural resources outside its domestic region. Thus, it must be profitable for the company to locate its operations abroad. Foreign markets else-where would be entirely served by exports whereas the home markets solely by domestic production (Rugman & Collinson, 2009). Because of globalization and the changing world economy, the theory of the eclectic OLI-paradigm from the 1970's by Dunning has been further developed to better describe the contemporary world. With less trade barriers, the localization-specific advantages have emerged to augment and exploit knowledge-asset activities. Nations seek to increase distinctive and non-imitable immobile resources and capabilities. Hence, the role of the government has been to enhance asset-creating activities by providing infrastructure, human resource development, technology, trade and investment policies (Hood & Young, 2000). Along with the development of the global economy, the nature of the CSAs has changed, where Dunning points out three new forms. First, firm-specific assets that are knowledge-intensive; knowledge in the form of intellectual capital and non-material assets are the key to wealth-creating assets for most industrial economies. Second, MNCs could easily transfer intangible assets, but due to immobile clusters of value-added activities, and the high transaction cost of traversing distance, location and ownership of productions are concentrated to certain

geographical areas within countries and regions. Third is the alliance capitalism, a wealth-seeking process in cross-border activities which required improved intra-form relationships and active collaboration between the firms' stakeholders. These three features have affected the capabilities and strategies of MNCs and the locational attractions offered by countries. The incentives for MNC activities; natural resource-seeking, market- or efficiency-seeking, are now accompanied by strategic asset-seeking motives, which will be developed in the following sections (Dunning, 1998).

2.1.3 Internalization (I) advantages

Given a set of owner-specific and localization-specific advantages, the internalization advantages emphasize why a company chooses to internalize its foreign value-added activities instead of selling or leasing the right to use its owner-specific advantages to other companies. This can be the case when a firm wants to secure property rights over its owner-specific advantages in knowledge. Other conditions in favor of internalization can include buyer uncertainty of the technology value being sold or the need to control the use or resale of the product. Rather than externalizing these activities through arm's-length contacts with independent companies, the internalization process is achieved through an extension of its own activities. Overall, the alternatives to internalization such as licensing, franchises and subcontractors etc. are assessed to be either unfeasible or unprofitable for a company to concede its owner-specific advantages (Rugman & Collinson, 2009).

2.2 Incentives for MNC activities

In addition to the OLI-paradigm of the reasons for firms' engagements in overseas operations, different kinds of MNC activity can be identified. A taxonomy applied by Jack Behrman in 1972 pointed out the four main types; the natural resource seekers, the market seekers, the efficiency seekers and the strategic asset or capability seekers. What constitutes the choice of MNC activity varies highly, although it is noted in the early 21st century that many MNCs that engage in FDI are recognized to have combined characteristics of two or more of the four types of MNC activity. The motives for foreign engagement may also change depending on the phase of overseas establishment. For instance, a company initially may invest in foreign countries to attain natural resources or to gain access to new markets. As its degree of multinationality incrementally increases, the foreign activities may be a way to improve the company's global market position through an upgrade level of efficiency or by getting access to new sources of competitive advantage (Dunning & Lundan, 2008). The theory of the market-seeker will be the main focus within this framework as it is most relevant to our study.

2.2.1 Market-seeker

In general, market-seeking companies will make investments to sustain existing markets or to exploit new ones. Dunning and Lundan (2008) describe four main reasons apart from market size and the prospects for market growth, which give incitements to companies to engage in either kind of market-seeking FDI. The first reason for market-orientated investments is that in order for a company to retain its business, it follows its main suppliers or customers who have set up production facilities overseas. The second reason, considerably the most important is the underlying fact that products need to be adapted to local tastes and

preferences. Moreover, foreign producers vis-à-vis local firms will find themselves at disadvantages if they are not familiar with the language, business customs, legal requirements or marketing procedure of the region. Supplying a local market from a close production facility compared to serving the market from distance will imply lower production and transaction costs, and this is the third reason for companies to engage in overseas activities. Naturally, this depends highly on the activity and country in specific. The fourth and last reason, which also is increasingly important, is that it is considered to be necessary for MNCs to be present in the global leading markets. Engagements in market-seeking investments as an integral part of a company's business strategy, will allow it to compete with its competitors in the important markets (ibid.). The immense size of the potential market in China has been a huge attraction for inflows of foreign FDI, and this considerably has been the case for luxury brands.

2.3 Rugman's FSAs-CSAs framework

For MNCs to be able to formulate their strategic intentions, they must first define the strengths and weaknesses of their firm-specific advantages (FSAs) and country-specific advantages (CSAs). Hence, an analytical framework to this study is the FSA-CSA matrix by Rugman (2005). Rugman (2010) explains that he has reworked the OLI-paradigm into a two dimensional matrix, where the L-specific advantages correspond to CSAs and the O-specific and I-specific advantages are correlated to FSAs. What distinguishes the OLI-paradigm from the FSAs-CSAs framework is that the OLI-paradigm emphasises on explaining outward FDI while Rugman provides a theory of the firm with focus on the strategic decision making (ibid.).

Firm-specific advantages also called firm-specific factors consist of distinctive capabilities of an organization such as knowledge in production, process technology, managerial and marketing skills or distribution competencies. These need to be proprietary owned, and the level of FSAs possessed by the firm is dependent on its ability to organize and leverage the use of advantages throughout the firm's value-chain. Country-specific advantages are based on country factors such as natural resource endowments, labor force and cultural factors. The CSAs are influenced by governmental decisions regarding tariff or non-tariff barriers, as well as trade agreements that affect the CSAs of the firm, either positively or negatively. CSAs also include demand conditions, regulatory systems and infrastructure and thus, CSAs are affected by political, cultural, economical and financial factors. If the CSAs are indistinguishable, it is necessary for a company to possess strong FSAs in order to have a competitive edge over its competitors (Rugman, 2005).

Rugman & Brewer (2001) state, that the FSA-CSA framework can be used as an operational tool at three different levels; first, at the firm level, as a strategic management tool to help executives with decision-making. Second, it could be a public policy tool to determinate the comparative advantages and FSAs of domestic companies at the national level. Third, when identifying the level of cross-country analysis like the World Competitiveness reports which is a competitiveness ranking of countries, the CSAs and FSAs can be distinguished. However,

only the level of the firm is relevant to this thesis, where a further deepening on the FSAs-CSAs framework as a strategic management tool will be elaborated (ibid.).

Even at the firm level, the form of FSAs and CSAs can differ in each strategic business unit, subsidiary or value-chain added activity. The significance of strong or weak location advantages could also be separated into firms, industries and countries. The contribution of location advantages to a firm's performance implies enhanced survival, profitability and growth vis-à-vis the competitors, which should be optimized by managerial decision-making. At the industry level, Rugman & Brewer (2001) mention a 'bandwagon' effect, where many firms in an industry penetrate a market at the same time. The intention of doing this is to thwart competitors from gaining specific locations benefits, and not with the objective of optimizing the industry location advantages (ibid.).

2.4 International marketing strategies

Rugman and Collinson (2009) list different strategies in the field of international business; organizing strategy, production strategy, marketing strategy, HR management strategy, political risk and negotiation strategy, and international financial management. Depending on the firm-specific advantages that a company possess, its strategic intention is chosen (ibid.). For the luxury industry, marketing strategy is an optimal function which enhances the firm-specific advantages of a brand, thus, it is important and relevant for our thesis. According to Rugman and Collinson (2009) marketing strategy comprises five main areas including market assessment, product, promotion, pricing and place or distribution strategy. International marketing is defined as "the process of identifying the goods and services that customers outside the home country want and then providing them at the right price and place" (Rugman & Collinson, 2009; 324).

2.4.1 Market assessment

The first step is market assessment, which implies an analysis with the aim of finding out specific offerings and geographic targets. The market assessment is divided into five screenings, first the initial screening, to determine the basic need and potential of the product in a foreign market. The second screening consists of eliminating markets which do not fulfill the financial and economical requirements. The financial aspects include inflation rates, interest rates, expected return on investment, the buying habits of customers and the availability of credit. The economical aspects comprise market demand influences and market indicators in terms of size, intensity and growth. Political and legal forces are taken into consideration in the third screening, where entry barriers such as import restrictions and local ownership are important factors, as well as patents, trademarks and copyrights. In the fourth screening, socio-cultural forces such as language, work habits, customs, religion and values are evaluated, in order to determine where to locate operations. If there are several potential locations, the last screening with focus on competitive forces, will be the one which determines the final choice (ibid.). As Porter (1990) describes, entering a competitive market can turn into a competitive advantage, as the company will force itself to become more efficient and effective and increase its own competitiveness.

2.4.2 Product

The product strategy differs depending on the characteristics of the targeted market and the specifics of the products. The major challenge for international business managers is to find a balance between being “global or local”; to standardize or customize, to integrate across all dimensions of the business or respond to local differences. Firms with a strong international brand require little or no modification. Factors such as economics, culture, local laws and product life cycle are weighted to determine if a moderate or high product modification is necessary. Rugman and Collinson (2009) also give examples of products that require an extensive modification; high-style consumer goods, cosmetics, advertising, packaging and cultural products. In regard of economics, firms need to customize their product size and packaging according to buying patterns and local preferences. The cultural aspect includes a set of style and aesthetics, convenience and comfort, and color and language. A specific marketing focus based on how the item is used locally needs to be adapted to products that are not modified. Local environmental and safety laws can implicate a product modification, as well as brand name protection which can imply a change of brand name. Additionally, due to production life cycles, companies must modify their products and release new versions before they become obsolete or get defeated by competition (ibid.).

2.4.3 Pricing

Government controls, market diversity, currency fluctuations, and price escalation forces that exist in the domestic market, are factors to be taken into consideration when deciding the price of products in the worldwide market. Many governments prohibit dumping and have regulations affecting pricing practices, for example by having minimum or maximum prices to prevent foreign MNCs from driving the local companies. There are market factors like consumer tastes, demand, and perceived quality of the product that influence the pricing strategy in each market. This implies that different prices of the same products exist. Another characteristic of market diversity are the tax laws and the willingness to be indebted. If many intermediaries exist in a product chain, an increase in the initial production cost will result in a marginal increase in every step, which makes the final price paid by customers significantly high. In addition, currency devaluation in the foreign market affects either the consumer price or the profitability of the company; the loss is mostly absorbed by the company, since an increase in price to compensate the loss will affect the demand (ibid.).

2.4.4 Promotion

A company creates and stimulates demand for its products by promotion including advertising which is formulated on the basis of the nature of the product. There are four different approaches, where the choice is affected by whether the firm believes that either the product or the message needs to be modified.

- *Identical product and identical message*
The same promotional appeal is considered to work in all markets.
- *Identical product but different message*
Choice in either highlighting affective messages or functional attributes.

- *Modified product but same message*
Different versions of product but respond to the same customer need.
- *Modified product and modified message*
When product use and buying habits differs.

Many firms use the same message in the advertisement worldwide; however, when the product usage differs and a directly translated message does not make sense, the advertisement needs to be locally adapted. There are several options of media to carry out the advertising message; television, radio and newspapers, where there are different restrictions depending on the media and country itself. Restrictions can involve a ban on comparative advertising, messages perceived as erotic and interdicts of advertisement in alcohol beverages and cigarettes (ibid.).

2.4.5 Place

There are different systems of distribution channels in each country and every possible alternative is investigated by MNCs before their overseas establishment. Depending on consumer spending habits in different locations, each country has a different format of stores (ibid.). Characteristics of the luxury industry are department stores, the brands' own stores, and multi-brand stores. Rugman and Collinson (2009) argue that it is difficult for a company to standardize a distribution system as there are many factors to be considered. When companies are looking for the best suited distributor to carry their products, different factors are evaluated; the financial strength, the contact network of the distributor and the number and types of product lines which are currently operated by the distributor. In general, many distributors do not feel the need to add any new product lines, so MNCs need to create incentives to convince the distributor to carry its products. These incentives could be a local promotional campaign paid by the MNCs, generous sales, conducting local marketing research for an well-forecasted volume of inventory, and full refund of unsold merchandise. Exclusive geographical distribution to one distributor can also be permitted by the company (ibid.).

2.4.6 Ongoing market assessment

Rugman and Collinson (2009) state that having an ongoing market assessment is essential to see whether the product responds to the customer's demand and need. When products mature, modification is important to keep or even increase profitability and market shares. Regardless of the pricing strategy that is adopted, targeting the top of the market with high prices or a low-price penetration can both be effective and beneficial. As concerning the luxury industry, high prices are obligated in order for the products to be perceived as luxury. What has become more important in recent years in the field of marketing is the Internet. It is today a significant media for marketing purposes which reaches out to more people than traditional media, and serves as a display of the firms' quality, credibility, achievements, and ethics (ibid.).

2.5 Presentation of the final framework

Throughout the thesis, we will use the terms firm-specific and country-specific advantages, as Rugman's (2005) framework emphasizes the strategic intentions of a firm. Rugman frequently refers to Dunning's owner-specific, location-specific and internalization advantages, thus discussing them separately is not necessary. The incitements for a luxury company to establish operations overseas are defined as market-seeking by Dunning and Lundan (2008). According to the theory, apart from market size and growth, luxury brands would want to establish in China for four additional reasons: (I) to follow its main customers and suppliers, (II) the need of locally adapted products, (III) to supply local market from a close production and (IV) to be present in the global leading markets (*ibid.*).

When analyzing our empirical data, we expect that the FSAs of a luxury company primarily will take form of intangible assets such as trademarks and brand names. We will examine if the FSAs comprise any specific marketing or distribution skills. Moreover, FSAs according to Rugman (2010) include internalization advantages which emphasize the process of a company internalizing its foreign value-added activities instead of selling the right to use its owner-specific advantages to other companies. Thus, when examining the internalization process, it is expected that the luxury brands to fully own and conduct its foreign activities, as internalization by licensing and franchising are reckoned to be impracticable and unprofitable. It is when the internalization advantages are well-mastered that the competitive advantages in the form of distribution capabilities can be achieved. According to Rugman & Collinson (2009), it must be profitable for a company to locate its operations abroad. While earlier CSAs have been employment of natural resource endowments and labour force, the contemporary CSAs have developed to be knowledge-asset activities (Dunning, 1998). Additionally, CSAs in the form of demand conditions and cultural factors defined by Rugman (2005) are expected when analyzing our collected data. These CSAs are highly affected by regulations, trade-barriers and other governmental decisions. Strong CSAs conduce to a luxury firm's profitability, survival and growth, in comparison to weak CSAs which oblige it to have strong FSAs to maintain a strong position in the competitive environment (*ibid.*).

The FSAs-CSAs framework will be applied at the country and industry level of the luxury market in China, and at the firm level of the luxury company Burberry. The analysis of the firm strategies will be primarily supported by Rugman and Collinson's (2009) marketing strategy. The first step towards a successful marketing strategy is to base it on a qualitative market assessment, which consists of a different analysis of the need and potential of the market, weighted against economical, political and socio-cultural considerations. The competitive environment is also evaluated to finally determine geographic targets and specific offerings that the market can provide. Thereafter, an examination of the strategy formulation of the four P's is necessary, where product, promotion, price and place (distribution), either can be standardized or be modified for local adaption. If the targeted market's culture, values and habits strongly differ, the aesthetics and packaging of the product should be changed. The promotional strategy implies adapting the advertisement according to the nature of the product. Depending on whether the product is modified or not, the message of the

advertisement can either remain the same or be changed. Using the Internet as a display to achieve brand awareness can be very effective, as it reaches out to more people than any other media. The pricing strategy is affected by government controls, currency fluctuations and market diversity in terms of consumer tastes and demands. Regarding the distribution options, there are several different channels to utilize. The principle is to evaluate different alternatives and select the best suited distributor to diffuse the company's products. When analyzing the luxury industry and the data collected we will look deeper into these expected aspects within the frameworks.

3 The luxury industry

The word luxury is ambiguous, in the sense that the perception of luxury is subjective. A poor person with less than \$1 each day to survive on would think that a proper dinner is luxury while the CEO of a MNC would consider five Ferrari cars as luxury. Thus, everything could be luxury depending on the circumstances, experiences and features of an individual. The chapter comprises the definition of luxury and the characteristics of the luxury industry as a general knowledge of the industry is necessary in order to analyze the expansion of luxury brands in China. To get a good overview of the industry, the value of the global luxury markets are presented and global major players are listed.

3.1 Definition of luxury

Chevalier and Mazzalovo (2008) define a luxury brand as a brand that is selective, exclusive and contributes an emotional and creative value to the customer. They set three criteria for a product to be considered luxurious; it needs to have an *artistic* dimension, be the result of *craftsmanship* and it needs to *be international*. Regarding the artistic aspect, the product must be perceived as a refined object, almost like a work of art. In the aspect of craftsmanship, the object should be designed in a way that the consumer wants to believe that it is unique and produced directly from the creator's workshop, even if it is in fact an industrial product. To be international implies being present in major fashion cities in the world such as Paris, Milan, New York, Tokyo, London etc. When customers travel to these cities, they will notice whether or not the brand is established. If a brand is not present, the customers would assume that it is less appreciated (ibid.).

Kapferer and Bastien (2009) define luxury in a different way, by explaining factors that must be included to qualify a product as luxury. The product can be a cultural good like a concert, or a night at a luxurious hotel. To be qualified as luxury, an extravagant *service* is required to come with the product in order for a holistic experience to be fulfilled. A luxury product should have a symbolic feature representing a *dream*, which is a dimension beyond the need or desire. The functionality of a luxury product is one dimension, but the dream implies satisfying all senses. A luxury product must remain current and yet be *timeless*, by having painstaking design and materials that age well (ibid.).

The luxury industry consists of several different sectors of activities:

- Exclusive *ready-to-wear* category for men and women
- *Accessories*; handbags, leather goods, shoes, belts, etc.
- *Jewelry* and *watches*
- *Perfumes* and *cosmetics*
- *Wines, champagne and spirits*
- Luxury *automobiles* such as Rolls-Royce, Ferrari, Porsche etc.
- Luxury *hotels* consisting of a mix of design, atmosphere and quality of service.

- *Luxury tourism*, mainly cruise activities.
- *Private banking*

(Chevalier & Mazzalovo, 2008)

Our interpretation of luxury from the definitions given above is a brand that has products in an artistic dimension with great symbolic importance. It needs to be timeless and an outcome of craftsmanship. The luxury brand must be recognized internationally and present in major fashion cities. The customer service should reinforce the experience of luxury. This interpretation is set as our starting point and will prevail throughout the thesis.

3.2 Luxury and fashion

There has been an ongoing debate of differences between luxury and fashion. Until the 19th century, fashion was considered as luxury, as it was only the wealthiest that could afford the luxury to buy new clothes while the rest had their clothes until they were worn out. Today, there is a growing divergence between luxury and fashion. Luxury creates a social stratification while fashion contributes to a certain social differentiation from an anonymous crowd. The common point for luxury and fashion is the need of being perceived differently in a social sense (Kapferer & Bastien, 2009).

According to Chevalier (2008), a brand can start out as a fashion brand. When it has achieved certain stability and the quality of being timeless, the status of luxury can then be applied. For a fashion brand to achieve the status “luxury”, creative directors must be innovative as new concepts and products need to be designed every season, while a signature style of permanent best-sellers should still be maintained. Chevalier points out that this perception can be misleading in a way that a luxury brand does not necessarily need to be innovative to the same extent as fashion brands which have far more collections each year. Nevertheless, new creations are essential in order to capture and keep the interests of a diversified customer base (ibid.).

3.3 Characteristics of the luxury industry

The luxury industry differs largely from other industries in many perspectives. Chevalier and Mazzalovo (2008) mention three specific characteristics that the industry holds; the size of the company, the financial particularities and the time factor.

The *company size* of many luxury brands are rather small- or medium-sized, except for a few large luxury conglomerates such as LVMH and PPR Gucci. Many luxury brands are recognized worldwide because of their reputation and strong brand-awareness. Despite the great international recognition of luxury brands, the sales are modest compared to other multinational companies (ibid.). The group LVMH had in 2009 revenue around €17 billion (LVMH, 2009) in comparison with H&M with revenue around €13 billion (H&M, 2009). By simply looking at the revenues, these companies can be interpreted as of similar size. However, one must have in mind that LVMH is a conglomerate consisting of many different

brands. If we were to compare one singular brand within LVMH with H&M, the revenue of that company would be of insignificant size. As the sales are rather small, the number of staff working is also limited. Most of the staff in a luxury company works at the retail stores behind the counter, where the actual business is conducted. Every single purchase of a luxury item is of importance to the company. Some luxury companies are so small that they possibly only own a design studio, and subcontract all other activities to licensees and distributors. Luxury companies often subcontract their production and only own one or two factories to create prototypes and certain product lines (Chevalier & Mazzalovo, 2008).

The *financial aspect* of a luxury company is interesting due to the fact that a significant number of them are actually not profitable. Therefore, many brands are part of a luxury group or another industrial company in order to survive. Luxury companies may accept being unprofitable to a certain degree, and there are two main reasons; first, the presence of the brand and brand awareness among customers is too valuable to abolish and second, if a luxury company was once successful, the profit would compensate for several years of losses. Two financial characteristics for a luxury company are that the break-even point is high and the need for cash-flow is low. As referred earlier, a luxury brand needs to have an international presence with stores worldwide; this creates high fixed cost in terms of rent, staff, inventory etc. Not only is the fabrication of a product important, the extraordinaire sales service, the packaging of the product and even the bag that comes with it are equally essential. These are costs that are significant for the brand image which do not generate direct profit. In addition, the fashion shows to exhibit the seasonal trends are expensive to carry out. The opening up of flagship stores, which is the biggest and most prestigious store in the city where the brand originates from, is also a costly affair. However, once the break-even point is reached, further sales generate profits due to the high margins in this industry. Thus, the profit is high for brands that are strong enough to succeed, while it is staggering for others that are in lack of resources to overcome the threshold (ibid.).

Regarding the *time factor*, the production cycle of fashion and accessories in the luxury industry differs from street fashion companies such as H&M and Zara. The production cycle is both longer and more costly. Luxury brands only launch two collections every year; Spring-Summer and Fall-Winter, whereas H&M and Zara have about 26 collections each year. A collection of a luxury brand requires in general 18 months, from the start of choosing fabrics till the clearance sales. Thus, the revenues of a launched collection take longer time to realize than street fashion companies. Due to this specific time cycle, there are few investors interested in placing investments in smaller brands which also is a cause of many family-owned luxury brands (ibid.).

Apart from the three main characteristics of a luxury brand, there are other important aspects that need to be taken into consideration in order for a brand to be successful. A luxury company needs to have a *strong brand identity*. What is common for luxury fashion brands is that many brands have the name of the original founder and creator. This is of importance as it reminds the customers of the brand's heritage. Another success factor for a luxury brand is

to have sophisticated products with its own *aesthetic code*, which should be identified with the brand and easily recognized by the customer. Every product of a luxury brand, from a women fragrance to a suit for men, should speak in a similar style and be a complement to each other. Each product should have a *raison d'être* (a reason to exist), something additional from just being a regular product which also contributes to the whole experience and image of the brand. Additionally, the products should be *in phase with the social and cultural environment* of the current time period. Switching trends makes certain luxury brands either more or less attractive depending on the current fashion trends (ibid.).

3.4 The global luxury market

We have been searching for different sources representing the luxury market, and the result was limited. We found two sources that could somewhat display a picture of the global market of the industry. The first finding was an evaluation by Chevalier and Mazzalovo (2008). The authors have estimated the value of the worldwide luxury market divided into sectors of activities, based on discussions with professionals in each sector (see appendix A, table 3.1). They claim that the total value of the worldwide luxury market was around €190 billion in 2007, where the ready-to-wear segment was estimated to be around €20 billion and accessories around €15 billion (ibid.). In another literature written by Chevalier and Lu (2010), the value of the luxury market for 2008 was given, with Chevalier and Mazzalovo (2008) as reference.¹ The result was that the total value of the luxury market had slightly decreased, from €190 billion in 2007 to €189 billion in 2008. The segments *ready-to-wear* and *accessories* had on the other hand increased, to €21.4 billion and €16.6 billion respectively.

Our second finding is a study by Bain & Company (2010), showing the worldwide luxury market trend from 1995 to 2009, indicating that the value reached €170 billion in 2007, €167 billion in 2008 and €153 billion in 2009. The market of luxury has been declining since 2007 considerably due to the financial crisis that erupted in 2008. Looking closer into the segments ready-to-wear and accessories, Bain & Company accounted these sectors for 27% and 24% respectively of the total sales in 2009, which correspond to €41.3 billion and €36.7 billion respectively of €153 billion in total (see appendix A, table 3.2). The source of Bain & Company's estimation is however unknown (ibid.).

There is a huge difference between Chevalier and Mazzalovo (2008) and Bain & Company's (2010) value assessment, for example the total value of the luxury market in 2008 between the two sources differs by €20 billion. The segments ready-to-wear and accessories valued by Bain & Company in 2009 were more than twice the estimation by Chevalier in 2007. We do not reckon that sources of Chevalier are more reliable since they are only estimations by people; neither can we argue that Bain & Company's information is more trustworthy as the principal source is not identified. The figures from both sources should be studied with great

¹ The numbers for 2008 was in billion US dollars, so we converted the numbers into euros by using the Swedish exchange agency's website, Forex, calculating with the exchange rate on December 31st 2008.

caution and they are only provided to obtain a perspective on the global market of the luxury industry.

3.5 Major players

The major brands of the luxury market originate from either France or Italy. Chevalier and Mazzalovo (2008) have separated brands with more than €500 million in sales per year with brands that have between €100 and €500 billion in sales (see appendix A, table 3.3). The brands in the first mentioned category are Chanel, Dior, Hermès and Louis Vuitton, all with origin in France. Armani, D&G, Zegna, Gucci, Max Mara, Prada and Salvatore Ferragamo are brands that originate from Italy. There are only a few luxury brands in the top while numerous luxury brands have sales below €500 billion per year. Jean-Paul Gaultier, Kenzo, Lanvin and YVES SAINT LAURENT are some examples from France, and Valentino, Versace, Fendi etc. are examples from Italy (ibid.).

Brands that originate from France or Italy, tend to have a longer historical heritage than brands from other countries like the US etc. The first wave of designers was from brands in France such as Chanel and Dior, which took off just before or after World War II (ibid.). They started out with designing haute couture using advanced tailor art and excellent materials to create custom-made garments (Fashionguide, 2010). In the following 1970's and 80's, major luxury brands from Italy emerged: Armani, Gucci, Prada, Valentino and Versace just to name a few. While most of the luxury brands were emerging from France and Italy, some few international luxury brands from the US, UK, Spain and Germany also succeeded, for instance Ralph Lauren from the US, Burberry from UK, Hugo Boss from Spain and Loewe from Germany (see appendix A, table 3.4) (Chevalier & Mazzalovo, 2008).

In 2010, with the help of WPP, one of the world largest advertising firms, Millward Brown Optimor's list of the World's most powerful luxury brands was released. The list is ranked based on the economic perspective of the firms, with their current value and the prospected future profit taken into consideration (see appendix A, table 3.5). The four brands in the top positions, ranked as the following; Louis Vuitton, Hermès, Gucci and Chanel are in the ready-to-wear and accessories sector. With Fendi in the 9th place, five of the ten brands are in these sectors which indicate that ready-to-wear and accessories are the main sectors of activity within the luxury industry (NYDailyNews, 2011). The top four luxury brands ranked above are included in the list of the leading luxury brands by Chevalier & Mazzalovo (2008), with annual sales of more than €500 million. This somewhat confirms their statement that luxury brands with the resources to invest succeed well, while it is more difficult for smaller brands with limited resources to do so.

Until now, we have mentioned several luxury brands within the luxury industry. As a matter of fact, many of these brands are part of a conglomerate. There are three major groups that are the most referred to; LVMH, Richemont and PPR Gucci. These groups consist of several different luxury brands operating in different sectors of activities. LVMH is the group with most ready-to-wear and accessories brands such as Louis Vuitton, Kenzo, Fendi (see

appendix A, table 3.6). They also have a wide portfolio including spirits, champagne and wines consisting of up to 21 brands such as Möet & Chandon, Veuve Clicquot, Dom Pérignon etc. (LVMH, 2010). The Richemont group has only a few brands within the sectors of ready-to-wear and accessories, the revenue comes primarily from their wide portfolio of watches and jewelry, accounting for 11 companies such as Montblanc, Piaget, Cartier etc (Richemont, 2011). PPR Gucci is the group with the fewest brands in their portfolio, with all brands in the ready-to-wear and accessories sector, except for one company, Boucheron, which offers jewelry (PPR Gucci, 2010).

3.6 Analysis: Strong FSAs vs. weak CSAs

The term luxury is clearly subjective as it can be interpreted in distinctive manners by different individuals. Luxury can be perceived as a dream, a masterpiece, exclusiveness, self-indulgence, or a form of social confirmation etc. Luxury is not a new phenomena and dates back in history, where luxury has been a way for the rich to show superiority and distinct themselves from the poor. Nearly all kinds of product and service can enter the luxury market, as long as it follows the characteristics of the industry. As luxury can be related to almost every industry such as the textile, furniture, restaurant, automobile etc., the luxury industry is often overshadowed as one tends to associate high-end products as expensive goods within other industries rather than luxury products. One reason could also be that the luxury industry compared to other industries is rather small in the global market. However, the industry is growing significantly as emerging countries make up a vast market for luxury products, which makes market-seeking incentives important.

The most important firm-specific advantages for a luxury brand are undoubtedly its intangible assets such as brand names, trademarks, and patterns etc. Furthermore, the brand must possess strong brand identity with deep association with its heritage which customers can readily relate to. This is important as it takes time for a brand to form its signature and aesthetic code. The major players today such as Chanel, Louis Vuitton, Burberry etc. have a rich heritage and can use this to strengthen their brand awareness. Being recognized and accepted by the consumers can take years, or even decades. Thus, we argue that it will take time for luxury brands emerged in the late 20th century to reach the top as major players. The brand value is enhanced only after consumers truly understand and appreciate the brand more. It is the rich brand heritage which ultimately defines and distinguishes a top luxury brand from other ordinary brands.

For a brand that considers establishing itself in foreign countries, it is even more important to have strong brand identity as these owner-specific advantages must overcompensate the disadvantages of competing in a foreign environment. Major luxury brands have succeeded by extensive investments in their operations, or in other words, brands that succeed the best are those with abundant resources to invest in their businesses. This can be an explanation to why the luxury industry consists of many smaller brands and only a few major brands at the top. Smaller brands do not access the financial assets that are required to become major global players. Several smaller brands, presumably operating in different sectors of activities are in

fact often a part of large conglomerates. These luxury empires become more impactful within the industry as they cover a wider range of different activities, and in this way strengthen their overall momentum. The ownership across different sectors of activities is also an indication of the brands' aspirations to be more diversified. These big groups strive to be strong financially and be able to invest the total revenues of its brand portfolio across different brands, where the revenue of a well-going brand can compensate for the loss of another brand. A general apprehension is that even if a luxury brand has a strong trademark, without good financial backup, it is still difficult for it to succeed as a major player.

When evaluating the prospect of future markets, luxury brands should hold strong firm-specific advantages, as the country-specific advantages within the luxury industry are fairly weak. Reasons for this are for instance, natural resource endowments which are not relevant in the case of luxury, and possible local labor force advantages in certain countries are highly dependent on whether or not production centers of luxury brands are localized there. However, we have chosen not to investigate in this matter as information about their factories is highly confidential. Regarding cultural aspects which can be country-specific advantages, it is related to which country a luxury brand originates from and which market it chooses to pervade. For European luxury brands, it is considerably easier to penetrate the American market as the cultural norms and values are more similar compared to markets in Asia, where it would imply more efforts to win over the Asian consumers.

Our study is focused on the Chinese luxury market where the form of CSAs that China offers will be investigated later on when presenting our empirical data. An interesting statement by Rugman & Collinson (2009) is that it must be profitable for a company to locate its operations abroad. However, this is not applicable on the luxury industry, as a brand must be international in order for it to be defined and recognized as luxury. Thus, even if it is unprofitable for a luxury brand to establish its operations overseas, it is still necessary for it to do so. We believe that this is a reason why many small- or medium-sized luxury brands not always are profitable.

4 Research methodology

4.1 Research approach: Deductive

An inductive approach of a research study is conducted when trying to identify concepts from the data collected without a predetermined theoretical framework. It is opposite to a deductive approach where a theory is chosen in the beginning of a study for analyzing the qualitative data (Yin, 2010). Our study has been done with a deductive approach, where the theoretical frameworks, the OLI-paradigm by Dunning and the FSAs-CSAs matrix by Rugman were elaborated before searching for empirical data. Guthrie (2010) explains that a start with a clear research hypothesis helps you to find the data necessary to investigate the research problem. The research hypothesis or conceptual framework provides a prediction and expectation of the result to the research questions, where it can be tested and thereafter be either accepted or rejected. An important reason for having research hypothesis is that it helps to determine the data needed and the choice of methodology (ibid.). If a formal hypothesis is used, it should consist of five factors according to Guthrie (2010); (I) issue possible explanations of findings, (II) assign a relationship between concepts, (III) be testable, (IV) be coherent with incumbent knowledge and (V) be described simply and concisely. The advantages of a deductive research can be that it is faster to accomplish and time schedules can be predicted more precisely while an inductive research can be more extended where data collections and analysis appear gradually (Saunders, Lewis & Thornhill, 2007). Limitation of knowledge in the start of a study might result in being unable to develop a framework. The alternative is to do grounded research; reviewing data, see what patterns emerge, and then generating informal inductive hypothesis (Guthrie, 2010).

We started off by identifying the theoretical frameworks that were appropriate to our research questions. By first defining the conceptual frameworks and identifying the primary concepts and keywords, it has facilitated the search for our empirical data. The chosen frameworks certainly fulfill the five conditions mentioned by Guthrie (2010), where the FSAs-CSAs framework is contemporary, based on Dunning's OLI-paradigm. A deductive approach compared to inductive is quicker to complete, still, it has taken us more time than we predicted to conduct our study as we wanted it to be extended and valid. As we had scarce knowledge in both the frameworks and the focus of our study, we chose an informal inductive approach, where we wanted to search for patterns that surfaced.

4.2 Data collection: Secondary data

Guthrie (2010) describes several research techniques that can be applied when doing research; we have however chosen to solely collect available data. This might not be the most effective way, since it is time-consuming to go through all accessible data. Available data are known as secondary data that can either be quantitative or qualitative (ibid.). Saunders, Lewis and Thornhill (2007) explain that there are different types of secondary data. The first group is *documentaries* which are written and non-written materials such as journals, newspapers,

organization websites and media accounts, including TV and radio. The second group of data consists of *multiple sources* where books, journals, government publications and industry statistics and reports are included. The third group of data comprises all kinds of *surveys* conducted by governments, organizations or academics (ibid.). We have chosen to only collect secondary data primarily from documentary data and multiple sources. The data and information gathered are mainly from various books about luxury, written by professors and experts within the luxury industry. Moreover, we have assured that the chosen conceptual frameworks are referred to academics articles that were found from different databases providing articles from different academics journals and reviews. Numerous online publications and articles retrieved from databases and the Internet have also been studied to help us answer our research questions. What is important to point out is that available secondary data has been excessive in certain topics and limited in others. For example, there are fairly many sources on the luxury industry in general and the Chinese consumer, but restricted in the subject of Chinese cities and the case of Burberry. One reason to the limitation of available data could be that we have conducted the study in Sweden and not in China or in the case of Burberry, in UK, where more information could have been gathered.

There are both advantages and disadvantages of collecting secondary data according to Saunder, Lewis and Thornhill (2007). To start with the advantages, it is less expensive when collecting available data and more time can be put in interpreting and analyzing the information gathered. If data is in urgent need, collecting secondary data would provide higher-quality than collecting it by yourself, and reanalyzing available data can lead to new unexpected discoveries. Lastly, most of the secondary data is permanent and available for public scrutiny, where the validity and credibility can easily be checked (ibid.). Because of the limited time frame, financial resources and the extent of our study, we have chosen to use available data, as there are many advantages of doing so, especially the argument of having high-quality data.

When looking at the disadvantages with collecting secondary data, Saunder, Lewis and Thornhill (2007) state that lot of the data collected does not match the actual need of answering the research questions, or can only be partially used. There is also the risk that the data collected a few years ago is not longer valid (ibid.). We have been focused on gathering data that helps us to answer our research questions, and only interpreting and analyzing data relevant for our study. By excluding sources that are older than 2007 when searching for empirical data, we have ensured that the findings are still valid. Another downside mentioned by Saunder, Lewis and Thornhill (2007) is that some desired reports are expensive and cannot be accessed through the school library, which could imply that necessary information affecting the result of the study is left out. As for our study, we recognized this problem when searching for reliable numbers on the value of the global luxury market. The problem was eluded by presenting other references, where we clearly specified that these sources are only an indication. In addition, the value of the global luxury market does not affect the result of our study, as this was given to provide some background information about the industry. Even if secondary data is normally of high-quality, it is not always the case, where source criticism has been an important part when evaluating the data (ibid.).

4.3 Case study

Yin (2003) mentions six different types of case studies based on a 2x3 matrix, where the '2' is either single- or multiple- case studies and the '3' consists of the case study being either exploratory, descriptive or explanatory (casual). We have executed a single case study of the luxury company Burberry with a descriptive approach, which contains a full description of phenomena within its context (ibid.). This implies that the theories discussed in the final framework have been explicated to be best applied and described with Burberry in its context. However, when presenting our case study, only secondary data such as the annual report of Burberry and its website has been analyzed. Combining secondary data with primary data by conducting a qualitative interview with a representative from the company would have been optimal. However, we found it difficult in reaching the qualified person to engage in such a case study. Multi-case studies of various luxury brands that have succeeded well in China would also have been of interest, but due to the time frame, presenting another case study would have been too demanding. Another approach would be to collect primary data, by conducting a study in China to further look into different marketing strategies applied by luxury companies, and having the opportunity to observe and examine consumer patterns and cities. However, this would have been unfeasible and financially impossible. Therefore, we consider collecting secondary data the most appropriate methodology to gather information to help us answer our research questions. The presentation of the case study has been intentionally conducted in the way that the empirical data and the analysis are combined, as it is the most effective way without too much text and repetition.

4.4 Evaluating data sources

When evaluating secondary data, Saunders, Lewis and Thornhill (2007) argue that *measurement validity* is one of the most important aspects to keep in mind. Collecting irrelevant information that does not help to answer the research questions will result in invalid answers of the study. There are not many existing measures that can prevent this, but one way is to investigate how other researchers have approached this problem for similar secondary data in similar context and follow their steps (ibid.). When evaluating publications from such as KPMG, we acknowledged that they also collect secondary data to achieve certain results. In addition, in the book of Chevalier and Lu, they were referring to the publication of KPMG. There were several references across sources which increased the trustworthiness of some sources.

When having surveys as a source to the study, their coverage, either time or population needs to contain the data variables which are accurate for our study. Unnecessary or unwanted data must be able to exclude and the remaining data must be sufficient for analysis (Saunders, Lewis and Thornhill, 2007). The primary surveys which we have referred to are the surveys conducted by McKinsey (2011), KPMG (2007), and Lu (2008) in the aspect of consumer. The first mentioned was a study done in 2010 consisting of interviews with 1500 luxury consumers covering 17 cities. Earlier study by McKinsey such as the study of 46 000 Chinese consumers across 60 cities in 2005 on attitudes and spending behaviour, and an additional study of 3200 wealthy consumers in 2008 and 2010, convince us that this is a reliable source.

The second survey made by KMPG (2007) in collaboration with TNS, one of the world's leading market research groups, comprised 830 people in first and second tier cities, between the age of 20 to 45, earning more than RMB 3 000 per month. This survey was extremely relevant as the data variables reflect the context of luxury industry very well. However, considering the immense population of China, 830 respondents are quite few, but the data has been additionally supported by secondary data to increase the reliability (ibid.).

Lastly, Lu's (2008) survey on consumption behaviour of the Chinese consumers contained both a qualitative and a quantitative study. The qualitative study comprised 22 interviews with individuals that hold senior positions or higher. From an economic point of view, they are included as the elite of the Chinese society. The interviews with 13 women and 9 men were conducted in chosen geographical locations, representing both the north and east regions. The quantitative study was based on a sample of 315 consumers in total. The data were collected over a period of two months in 2004, via both the Internet and by direct contact in the main economic cities (ibid.). The study by Lu consisting of both a qualitative and quantitative research increase the validity of his determination of the consumer segments from a psychographic view, why we have chosen to elaborate it in the next chapter.

According to Saunders, Lewis and Thornhill (2007), surveys that have been conducted by large and well-known organizations are with high certainty reliable and trustworthy. The existence of consultancy firms is dependent on valid data and studies, and thus, having accurate procedures and methodologies is of high importance. Despite this, an examination of how a survey has been conducted is still significant, as there are always uncertainties (ibid.). Dochartaigh (2002) suggests three different questions that need to be approached when evaluating the reliability of Internet sources; (I) what information is available about the person or organization responsible for the study? (II) Does the website have copyright? (III) Is there a printed document which reinforces the authority of the web document? If all three conditions are fulfilled, the Internet source is probably reliable and valid (ibid.). As we have diligently used many web-sources when searching for empirical data, attempting the three conditions has been important to make our study valid. By presenting all the web-sources under the list of references, the name of the organization is shown and the year is often an indication of copyright. However, many of them do not have a printed document, if they did, we would have referred to the printed document instead.

4.4.1 Source criticism

The use of secondary data as the only method makes the assessment of reliability and validity of the information collected extremely important, therefore, the collected data have been revised critically. When inquiring our empirical data, the original source of our secondary data such as publications and articles have been inspected to ensure that the information given is credible, and also with the aim to find the principal source which we can refer to. However, multiple data such as books, McKinsey and KPMG publications that have been important sources to our study are both valid and trustworthy, why the principal source is not referred to as it will require extensive and unnecessary work. More importantly, when referring to websites, great attention for source criticism is necessary, as the content can easily be

rewritten or stated by a person who is not authorized or qualified. When the information is perceived as unsure, confirmation from other sources has been carried out, however, only one reference to the most reliable source has been referred to. Our qualitative data from secondary sources has been gathered and structured in the thesis according to Guthrie (2010), by first describing the relevant information, followed by analyzing and identifying the similarities and differences of the data, and last, interpreting the theories and data to draw a conclusion.

4.5 Limitations

There are various descriptions of luxury defined by different scholars within this field. As a starting point, our definition of luxury for this thesis has been made. There are several sectors of activities of which a luxury brand can operate in, and we have chosen to focus on the sectors ready-to-wear and accessories. The two sectors together make up the largest market of luxury, and since many luxury brands combine these two sectors of activities, it would be complicated to separate them. Thus, when the terms; ‘luxury brand’ or ‘luxury company’ are used in the thesis, we are referring to the segments ready-to-wear and accessories. Brands that operate in other sectors of activities are excluded such as brands within the luxury automobiles, for example Rolls-Royce, Ferrari etc. There are very limited sources available on the value of the global luxury industry, thus, the numbers presented should be approached with caution, and they are only provided to give an overall picture of the industry. Further on, there are numerous luxury brands within this industry and mentioning all of them and positioning them in the market is difficult and would imply endless work. Therefore, we have limited our study to only mention the major players within the luxury industry.

Moreover, we have limited the thesis to only comprise a single case study of the luxury brand Burberry. Reasons for our choice of company include the fact that Burberry is one of the major players in the luxury market today, the brand is successfully established in China and the company is noted on the stock exchange which provides us useful information to base our study upon. There has been a limitation of the data analysis in the study of Burberry when analyzing its marketing strategies. Difficulties in finding concrete examples of its promotion strategies that are specific to China have limited our analysis. Other legitimate information, for example about Burberry’s production centers and where they are located has also been difficult to find. It would have provided us with a comprehensive picture of the brand’s overall operations in the luxury market.

4.6 Quality of the study

Yin (2009) describes four tests for evaluating the quality of any empirical research;

- Construct validity: use of appropriate operational measures according to the specific concepts that are studied.
- Internal validity: (only for explanatory or casual studies) searching for casual relationships where one condition leads to another condition.
- External validity: determine the section in which a study’s result can be generalized.

- Reliability: demonstrate that when conducting the same study, the result will be the same.

Yin (2009) explains several different study tactics to increase the validity of the four tests. Augmenting the construct validity, the use of multiple sources of evidence, establishing chains of evidence, and having key informants review the draft of the case study are relevant methods. Ensuring the internal validity, pattern matching, explanation building and logical models are some tactics. The external validity can be increased by applying theories in single-case studies. Finally, the reliability test can be improved by the use of study protocol, which will make it possible for others to do the same study, hence, obtain the same result (ibid.).

To increase the construct validity we have used multiple sources of evidence, as the data collected comes from different sources. In every chapter, we have been careful not to only use a single reference but several, and in this way establish a certain chain of evidence. Since we are conducting a descriptive study, internal validity is not in order. To assure the external validity of our thesis, we have applied the chosen conceptual frameworks into the collected data, which is elaborated in the analysis at the end of every chapter. Regarding the reliability of our study, we believe that the same data and information would be gathered by others conducting similar studies. However, the interpretation of the data and information may differ which affects the results and final conclusions. A threat to the validity of the thesis would be if we have missed out on any important data that has huge impact on our analysis. We have tried to prevent this by searching for all available, relevant sources related to our research questions. Regarding the case study of Burberry, an interview with a qualified person would have significantly augmented the liability and validity of the study. Still, the case study was aimed to be complementary to our thesis and not a main part. Thus, a more thorough case study has not been conducted. Moreover, there are disadvantages of not being able to be in China to get a perception of the luxury industry and Burberry in the Chinese market. We believe that it would facilitate the collection of data and possibly influence our conclusions.

5 Empirical data: Luxury in China

5.1 The luxury market

The Chinese luxury goods market was valued to €5.9 billion in 2008 and €7.1 billion in 2009. While the value of the worldwide luxury market decreased from €167 billion from 2008 to €153 billion in 2009, the Chinese luxury market actually increased in value (Bain & Company, 2010). Therefore, the market in China is of great importance for the luxury industry.

According to an extensive research by McKinsey (2011), the Chinese market will hit RMB 180 billion in 2015 which is equivalent to €18.3 billion.² It is evaluated that China will become the world's largest luxury market and stand for over 20% of the global luxury consumption by the year 2015, overtaking Japan's current number one position. The industry of luxury goods including ready-to-wear, accessories, watches and fine jewelry experienced a modest but steady sales growth of 16% in China, which was far better than several other major markets of luxury (ibid.). Accessories and fine jewelry have been the product categories with the strongest growth, and a reason is that they, compared to the ready-to-wear sector, offer more versatility and visibility to consumers that have a limited budget for luxury (KPMG, 2008).

As the consumers in China are becoming wealthier, there has been an increase in consumer spending power since the 1990's. This is certainly acknowledged by luxury brands that seek to establish themselves within this immense market with vast growth potential (ibid.). Luxury brands are setting up strong attachments across China with fashionable local stores, and the abundance of magazines and websites with the latest fashion news are all contributing to a closer association that the Chinese consumers now have with luxury goods. As the Chinese customers are becoming more familiar with luxury products, they are also becoming more apprehensive about the relationship between quality and price. In the past, high price somehow automatically indicated better quality, but this is not always the case today. The consumers have in general become better in assessing the value of luxury products (McKinsey, 2011).

Major luxury brands in China that conduct huge investments to focus on brand value are seizing market opportunities. Luxury brands with limited brand awareness in China are finding difficulties as they need to invest more to improve their brand reputation and to keep their market position in China. Such investments can be seen as a financial suffocation, as opening of new stores, investing in new leases, inventories, decor and staff as well as investments in promotion are all costly affairs. Major brands are positive in making these heavy investments, since they contribute to their worldwide growth. Smaller brands, on the other hand, have financial struggles with investments in activities that do not generate direct

² We converted RMB 180 billion into euros by using the Swedish exchange agency's website, Forex, calculating with the exchange rate on December 31st 2010. By having the figures in euros, it makes it easier to compare.

revenue such as a fashion show (Chevalier & Lu, 2010). Furthermore, as the Chinese market for luxury is gradually becoming concentrated, many brands face challenges in sustaining growth and further expansion due to the intense competition. Three main reasons have been observed; first, finding high-quality retail space has become difficult for many brands as the best locations in malls and retail districts are commanded by the major brands. Second, as new stores constantly search for qualified sale staff, luxury firms are facing challenges in retaining trained staff, which are particularly important in this industry since the service they provide is the key-factor to increase sales. Third is the difficulty of getting hold of the desired advertisement space (KPMG, 2008). Another factor affecting profitability for many luxury brands in China is the import duties and value-added taxes that result in a higher retail price in mainland China than for example in Hong Kong (Chevalier & Lu, 2010).

5.2 The luxury consumers

In recent years, a radical turning point has been witnessed for millions of people in China as their incomes have rapidly increased and they now earn enough money to buy products far beyond the bare necessities. The high availability of luxury goods, the widely spread information about them along with the acceptance to express wealth by using luxury products are some factors that are continuously reshaping both the Chinese view and consumption of luxury goods. The new group of luxury consumers includes an increasing portion of residents in second-tier cities which will be elaborated in the next chapter (McKinsey, 2011). The focus in this section will be to identify the Chinese luxury consumer and on what basis they choose to purchase luxury products.

5.2.1 Shift in consumer lifestyle and attitudes

The plausible consumers of luxury goods in China, which consist both of the wealthy and the very wealthy households, are growing at an unforeseen pace. The wealthy comprise the upper middle class; a section with a yearly household income between RMB 300 000 and RMB 1 million. The very wealthy are defined as those with a yearly household income of more than RMB 1 million, who most likely own assets greater than RMB 10 billion. The increasing potential consumer base, not only the very wealthy, but the growing upper middle class are new opportunities for luxury brands to target (ibid.). Lu (2008) identifies these two groups as China's super rich and the upper middle class. Together, they make up the 'China elite' and are considered to be the main drive to the growth of luxury consumption in China (ibid.).

In spring 2010, an extensive survey of over 1,500 luxury consumers across 17 cities in China was conducted by McKinsey (2011). One remarkable finding which separates the Chinese luxury consumers apart from their counterparts in other markets is the difference in age; the luxury consumers in China are much younger in comparison to the Western consumers. 73% of luxury consumers in China are under 45, compared to just over a half in the US, and 45% of the luxury consumers are under 35, compared to 28% in Western Europe (ibid.). The younger generation in China has grown up to be a part of the steady rise in household income and property value, and has never experienced an economic recession. This generation is optimistic about the future with prospects of becoming wealthier and believes in enjoying life

today rather than contemplating the future. Due to this shift in attitudes, the Chinese consumers are more allowing themselves to purchase luxury products for personal indulgence, which has resulted in a visible growth, from 25% in 2008 to 36% in 2010 (ibid.). Moreover, a survey executed by KPMG (2008) together with TNS in China, confirmed that the younger generation in China is more optimistic about the future, and that buying luxury products for self-enjoyment is common. 49% of over 900 participants answered that “I long to buy luxury goods but I cannot afford them right now” (KPMG, 2008; 7). The answer was as high as 62% among respondents between the groups of 20 to 24 years old (ibid.). In addition, the Chinese luxury consumers are not solely seeking to indulge in materialistic appearances, many are aspiring new experiences to attain a luxury lifestyle. This involves well-being enjoyments such as spas, massages, gym and other sport activities. Studies show in fact that the spending on luxury services is growing faster than spending on luxury goods. 20% of luxury consumers answered that they have increased spending on luxury experiences whereas 13% claimed they were spending more on goods (McKinsey, 2011).

When looking deeper into the established customs of Chinese natives, certain trends in their way of behaving can be identified. This is most essential for luxury brands to take into consideration. During the two most important seasons (Spring-Summer and Fall-Winter), new trends are presented in fashion weeks by talented designers who avidly want to show their new collections to the public. It is substantial to study how these product innovativeness effect the consumption of luxury goods. Within an Asian cultural context, quite few consumers are prepared to be the first to try a new product as they are not willing to take the social risk. However, if they think others have tried it, the discomfort of being left behind will induce them to follow the trend. Another interesting factor to look into is the time of adoption; a luxury innovation requires longer time to be acknowledged and experienced by the consumers in comparison to other products such as a digital camera. Furthermore, the luxury market in China is considered to be rather tardy. The luxury consumers are fairly removed from the seasonal cycle of the fashion industry and they are insensitive to new fashion trends. In contradiction, the consumers are extremely sensitive to word-of-mouth spread of luxury innovations, in some cases even without actually knowing what the product is. Influences from friends or the Internet clearly affect the decision on purchasing a product (Lu, 2008).

5.2.2 Consumer segments from a demographic view

To understand the rapid growth in consumption of luxury products in China, it is necessary to identify the key segments of the Chinese luxury customers. Along with developed infrastructure, increased urbanization and a growing proportion of the population in China becoming wealthier, an emergence of new luxury consumers has been witnessed. This includes a group of consumers in diversity, ranging from young to middle-aged, ordinary white-collar employees to business executives, celebrities to the ‘new riche’ (KPMG 2008).

KPMG (2007) has identified the four sets of consumers on the basis of different sources including journals such as China Daily and Women’s Wear Daily, and The Luxury Institute, a global research and consulting company “dedicated to building customer-centric luxury enterprises” (Luxury Institute, 2011).

The four sets of luxury consumers identified are:

- The group of *business elites* comprises males over the age of 35 with good connections and most likely a senior position. In comparison to the other segments of consumers, this group is more advanced in luxury consumption as it has been exposed to it for a longer time. This implies in some regard a more sophisticated taste in luxury products, and can be recognized by consumption in luxury experiences and luxurious products with more niche rather than conspicuousness alone. The demand of more value for money is higher and indulgence for oneself is accompanied by one's family as well.
- The *new luxury shoppers* represent a group of consumers with wide diversity. Entrepreneurs, business people and celebrities are the base in this segment of the newly rich. The main characteristics include the fact that they are generally the first generation in their families who can afford luxury products. This modern group tends to be younger than the traditional luxury consumers, and their mindset differs widely from their parents as they are more willing to spend on what the parents refer to as "superfluous" goods. Surveys indicate that the majority of Chinese consumers of luxury products are considerably younger than their counterparts in the U.S. and Europe, with the age between 20 and 40 years old. As stated above, these modern luxury consumers are optimistic and less worrisome about the future which indirectly influences their consumption habits where the spending on expensive items to match their lifestyle has been seen.
- The third group of luxury consumers involves *empowered females* as more women today are starting to gain social and economic independence. This segment includes business women, celebrities and the newly independent rich wives. Businessmen over 35 are being replaced by young Chinese women who now have enough money of their own to spend on luxury products and are the main consumers of luxury goods in China. The Luxury Institute has identified a trend which entails a movement towards female luxury consumption. This growing segment of empowered female in China is consistent with this global trend. The rise in their buying power has overtaken the male's and it is predicted that it will continue to rise as women will reach the same level as men in the fields of academic achievement, progression in career and start-up of business.
- The *little emperors* make up the fourth and considerably the most brand conscious group of consumers in China. This segment comprises youth entering their teen years or early adulthood in larger urban centers and is the result of China's one-child policy. This only child receives care and attention from six sources including parents and grandparents, who all are desirous in responding to every demand and need of the child. The result is in some regard, a rather spoiled generation who throughout media and the increased use of Internet are brand-aware and luxury-conscious. They know what they want, have high expectations and are not timid in demanding it.

(KPMG, 2007)

5.2.3 Consumer segments from a psychographic view

Both demographic and psychographic variables can be accounted for when segmenting the Chinese consumers of luxury goods. Segmentation in psychographic variables divides consumers into various groups depending on their personality, values, attitudes and lifestyle. People within the same demographic segment can exhibit different psychographic attributes. Research conducted by Lu (2008) has the objective of investigating the attitudes and behaviors of the luxury consumers of the Chinese elite. From the in-depth interviews, the identification of three dimensions as the basis of consumer segmentation could be made. The first dimension is a consumer process which is linked to personality and consists of two opposing variables: impulsive versus analytical/rational. The second dimension is consumer values and comprises four variables: modernity versus frugality and collectivism versus individualism. The third and last dimension is the value or meaning of luxury products (being conspicuous or not). Based on these three dimensions, four segments of consumers are identified and classified as luxury lovers, luxury followers, luxury intellectuals, and luxury laggards (ibid.).

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- *Luxury Lovers*
These lovers of luxury brands know exactly what they want and enjoy the conspicuousness which luxury products bring. The most distinctive feature of this group is how they are oriented toward conspicuousness in the consumer value factor, and are rational rather than impulsive.
- *Luxury Followers*
This segment as the name portrays comprised those who do not equally apprehend the deep sense of luxury products or specific brands, but choose to follow the latest trend created by the media and public. This group is distinguished by the factors of collectivism, conspicuousness and extreme impulsiveness.
- *Luxury Intellectuals*
The intellectuals are extremely apprehensive and carry their own idea and understanding of luxury products. This group prefers classical and discreet models and

chooses to keep a distance to trends created by media hypes. Three distinctive factors, which can be expected, are individualistic, rational and not very conspicuous.

- *Luxury Laggards*

The term luxury laggard derives from the fact that the individuals within this group can afford luxury consumption but do not care much for luxury brands and are not seduced by advertisements. The segment consists of individualists who are functional but rather impulsive. This can be explained by the implication of being price-rational but opportunistic buyers which leads to impulsiveness.

While studying the disparities between these four groups, two important correlations are identified; individualism and impulsiveness, conspicuousness and innovativeness. The first correlation entails that luxury laggards are more oriented towards being impulsive and individualistic while luxury lovers are rational and collective in their choices in luxury consumption. A rational choice for luxury lovers is influenced by collective considerations such as if the purchased product is recognized by the public. As for luxury laggards, personal preferences have the main impact as they will choose to buy a product if it has high quality and fits their functional need, in other words without much analysis of social concerns. The correlation between conspicuousness and innovativeness indicates that both luxury lovers and followers find a liking for new trends, collections and fashion seasons, which implies a more conspicuous oriented consumption behavior. The interest in luxury goods for luxury intellectuals and luxury laggards on the other hand lies in elements such as brand heritage and excellent quality rather than trends and conspicuousness (ibid.).

Traditionally, luxury firms will seek to maintain the loyalty of existing consumers while creating new models or expanding its product categories to attract new customers within all four of the classified groups. For newly established luxury companies, being innovative is the main approach to attract customers, most of whom are luxury lovers or luxury followers. Still, if these new brands want to penetrate the luxury market, solely having luxury lovers and luxury followers as a customer base will not be enough as they tend not to be loyal to any brands. Thus, it is significant to create their own signature legends to attract traditional luxury consumers, the luxury intellectuals and luxury laggards. A real luxury brand shall have costumers from all four classified groups, where the clients with different preferences can have their demand met under the same brand (ibid.).

5.2.4 Analysis: A mix of demographic and psychographic views

With the psychographic view in consumer behaviour as a starting point, we have composed a cross model which comprises the two dimensions; impulsive versus rational and collectivism versus individualism. The four consumer segments identified are placed in the figure 5.1 below, to indicate and distinguish different orientations toward luxury consumption behaviour.

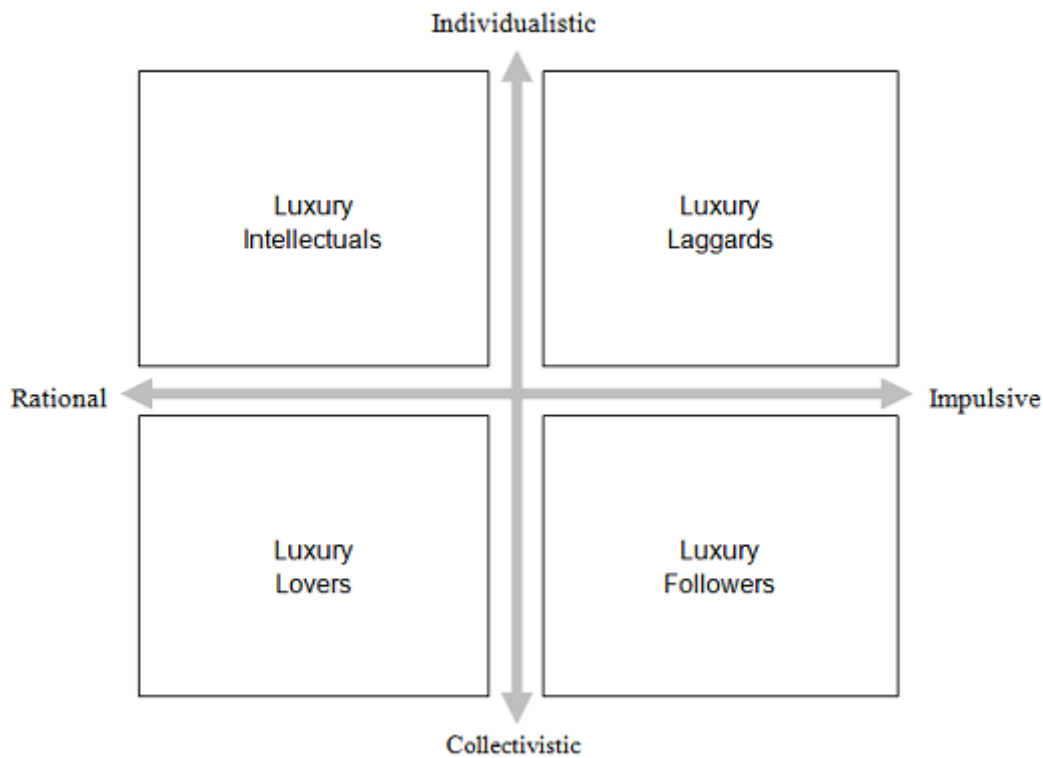


Figure 5.1 Psychographic consumer segments in two dimensions

For the luxury lovers, being rational is highly influenced by collective considerations as they want the purchased product to be recognized by the public. The luxury followers like luxury lovers are also collectivists as they follow the latest trend created by the media and the public. There is nevertheless a divergence of time margin before a purchase, as luxury followers in contrast to lovers are recognized as being extremely impulsive. Luxury intellectuals make up a group that considers brand heritage an element of great importance. For this reason, they are rational and individualistic in their choice of consumption as they wish to stand off from current trends hyped by the media. The luxury laggards are also individualists since they are not easily affected by the media or advertising. However, they are impulsive in the aspect of being opportunistic buyers which creates impulsive consumption.

Through this model, we identified a important correlation between collectivism and conspicuousness. Being collectivistic is associated with the desire for conspicuousness, a wish for social awareness and display of wealth and success for others. Both luxury lovers and luxury followers are collectivists but also identified as oriented more towards a conspicuous consumption behavior, as they seek some degree of social confirmation. As for the luxury intellectuals and laggards, the desire for conspicuousness is low and goes hand in hand with being individualistic in their choice of luxury consumption.

In figure 5.2 below we have further developed the cross model, where we have combined the four consumer segments from both the psychographic and demographic views and placed

them in the same model. There is no research basis for this approach, however the conclusions are drawn and reasoned based on the data we have had.

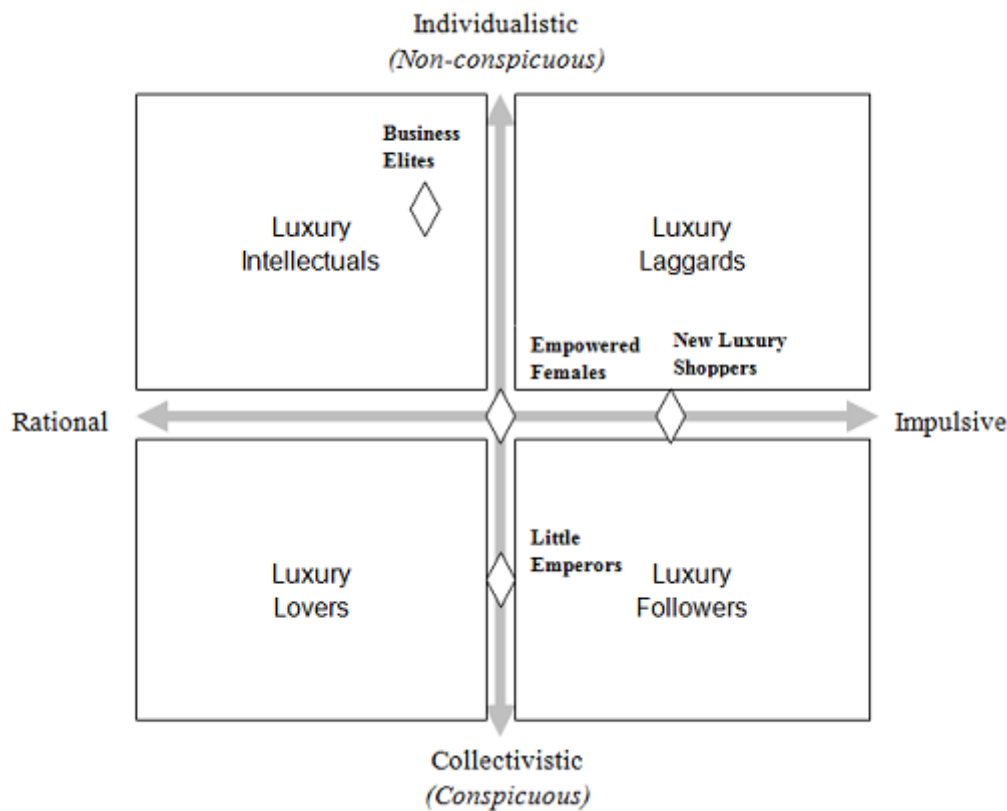


Figure 5.2 Psychographic and demographic views in two dimensions

The segment group of business elites has more sophisticated taste as they have been exposed to luxury goods for a long period of time. They demand more value for money and purchase luxury products with niche rather than for the conspicuousness they bring. We argue that they tend not to be impulsive in their purchase. This group can be related to luxury intellectuals for the factors of being rational and not oriented toward conspicuous consumption behaviour. The new luxury shoppers represent a younger consumer group with a optimistic mindset. Compared to their parents, they are less concerned about the future and are more willing to spend money on expensive items. This group comprises a section of consumers with wide diversity. Thus, it is rather hard to divide them into one defined psychographic segment. However, we argue that they are rather impulsive in their consumption since they are optimistic and do not worry much about the future. The empowered females make up for a group that is most difficult to segment into one specific psychographic group. They can either be rational or impulsive and we do not hold enough information to determine whether or not they seek conspicuousness. The little emperors are defined as presumably the most brand conscious consumers of them all. This group is placed more towards conspicuous consumption behaviour.

One must have in mind that the psychographic segmentation is based on the personality, values, lifestyle etc. of an individual. Therefore, within the same psychographic segmentation, there can and most certainly will be different demographic groups, for example the new luxury shoppers can either be individualists or collectivists. Likewise, within the same demographic segment, individuals can possess very different psychographic attributes, for instance all business elites are not rational and some may also be oriented towards a conspicuous behaviour. The purpose with our model is to somewhat give an overview on the major psychographic variables that can be exhibited in each demographic segmentation.

Figure 5.2 indicates a significant pattern for luxury consumption which luxury brands should keep in mind. It is difficult for a brand to have product segments which match all the preferences of each consumer group. However, it is necessary for the brand to attempt to capture all these consumer segments in order to have a broad and diversified customer base. It can be achieved by establishing a strong signature brand with excellent quality that goes in tandem with a solid concept. This will allure the luxury intellectuals and luxury laggards. In order to capture the other consumer segments, luxury brands need to create great brand awareness, as non-recognizable brands will be neglected by the luxury lovers and luxury followers. Thus, brands with strong characteristics that invest heavily in promotion activities will gain the maximum profit from these two groups. Product strategies consisting of new innovations and modification on a continuous basis are also important steps to stay competitive in attracting these two segments. However, as luxury lovers and luxury followers tend not to be loyal to certain brands, luxury companies need to keep in mind the importance to target all consumer groups by broad product offerings and adapted advertisements with preferences of all the four consumer groups.

These different consumer segments together form a customer base with demand for luxury brands which is country-specific. The whole population of 1.3 billion people in China does not count as a country-specific advantage. It is rather the upcoming middle-class and the very rich that make up for a consumer base which is a country factor specially important and advantageous for luxury brands. However, this CSA is beneficial for the whole luxury industry and not to any luxury brand in particular. As CSAs are highly affected by cultural and economical factors, we argue that the potential customer groups in China as a CSA is enhanced by the fact that the Western style is getting more accepted, and the economical factor implies the increase in the middle-class household income. We argue that the consumer base and demand of the Chinese market is a strong CSA for the luxury industry, where it has had a great contribution to the global luxury market, especially during the economic crisis in recent years. However, at the firm level, it is rather weak, where it does not provide one firm with specific advantage over its competitors which make firm-specific advantages necessary.

5.3 Potential locations listed by analysts

The largest cities in China have been in focus when luxury companies consider where to establish their brands. However, due to the rapid urbanization and increase in wealth, there are new geographical regions in China with a respectable customer base for luxury products

(McKinsey, 2011). China consists of 656 cities, 2 860 county level regions, which thereafter are divided into 41 040 towns or townships. A city functions as an administrative unit and can account for several towns and villages. Firms use either these administrative tiers as a starting point for their marketing strategy, or set up their own tiers based on economic and commercial indicators (KPMG, 2008).

In a report by KPMG (2008), the 15 largest cities in China are classified in tier one and tier two cities. *Tier one* includes Beijing, Shanghai, Guangzhou and Shenzhen, with an affluent population of 3 million adults from households earning an average monthly income of RMB 5 000 and above. *Tier two* consists of the remaining 11 cities, (see appendix B, table 5.1) where each city inhabits over 350 000 residents with middle or upper class income, and makes for households with an average monthly income of RMB 3 500. The total 15 cities have an adult population of 66 million people, where 30% are from the middle class households (ibid.).

Chevalier and Lu (2010) have broadened the study on Chinese cities by dividing them into a multi-tier system. Their definition of second tier cities consists of a much more widened array than the 11 cities listed as *tier two* by KPMG. In addition to the 11 cities, Chevalier and Lu (2010) have extended with 26 cities that can be seen as potential markets for luxury brands to establish in. The multi-tier system is built upon; tier 1 - 'big four', tier 2a - 'climbers', tier 2b - 'niches', tier 2c - 'mainstreams', tier 3a - 'next frontiers' and tier 3b - 'poor cousins' (see appendix B, table 5.2). Tier 1 comprises the same four cities listed by KPMG. The tiers 2a, 2b and 2c account for 37 cities with a large population base, where tier 2a and 2b comprise wealthier households. The "climbers" have high GDP and a population with high income. The "niches" are smaller in market size, but have a wealthier population compared to "mainstreams" which have a large population but with a relative low income (ibid.).

While many marketers have used a system of ranking by 'tiers' with the basis on GDP, McKinsey (2011) conducted a research based on the forecasted growth of household income with an analysis of 650 cities. McKinsey points out several smaller cities with a huge potential for luxury footprint. The company mentions cities not included in the list by KPMG, such as Taiyuan, Changchun and Yantai, and are expecting Qingdao and Wuxi to triple their luxury consumption in five years. The consumption will in 2015 reach the level of Hangzhou which is among the most developed luxury markets in China. Beijing and Shanghai are the two mega cities and the rest are categorized into nine large cities, 25 developed cities and the remaining 620 cities, (see appendix B, table 5.3). The nine large markets such as Wenzhou, Hangzhou, Nanjing etc, are forecasted to account for one third of the luxury consumption in China by 2015. The next 25 developed cities, which include Xian, Taiyuan, Yantai etc. are predicted to account for 26% of the Chinese luxury consumption by 2015 (ibid.).

5.3.1 Traveling between cities

According to a survey by KPMG (2008), 20% of more than 900 participants travel abroad at least once a year. This will lead to an increase in discerning in tastes when Chinese consumers become more exposed to international trends and brands. 34.5 million made outbound

journeys in 2006 compared to 12.1 million in 2001. Places that the Chinese visit the most are Hong Kong and Macau followed by Southeast Asia and Europe. The respondents who earn an average monthly income of RMB 8 000 travel abroad 2.3 times per year. Due to the high duty and value-added tax in mainland China, the traveling consumers are very keen to purchase luxury products overseas. Visiting overseas boutiques or flagship stores is also a part of the shopping experience. The majority of the participants who have travelled abroad answered that they have bought luxury products overseas, although not deliberately to save money. Still, there are those who intentionally make lists to purchase gifts for friends and family. 86% of those traveling more than once a year claimed that they will purchase luxury goods domestically in China as well. There is no evidence that sales of luxury products will diminish in mainland China because of the traveling consumers buying products overseas. It is nevertheless essential for luxury brands to be present both domestically and overseas, as certain customers write shopping lists according to the brand they know from home (ibid.).

5.3.2 Mapping out the five cities

Of the data collected we have chosen five cities that are important urban areas for luxury brands to focus on. These cities are distinctive and differ largely from one and another. One thing in common is that they all have high growth potential in the luxury sector, hence, the importance for luxury brands to establish a presence there. We recommend these cities due to the fact that they have been mentioned by at least two different sources, (see figure 5.4 below). All five cities are described as second-tier cities according to Chevalier & Lu (2010), where Xian and Nanjing are referred as the ‘climbers’, Wenzhou as the ‘niche’ and Fuzhou and Taiyuan as the ‘mainstreams’. Three out of the five cities are near the East China Sea where Xian and Taiyuan are located inland China, (see figure 5.3 below).



Figure 5.3 Mapping out the five cities

Xian, known as the eternal city, has a rich history which goes back 3 100 years. Xian also has the title of “Natural History Museum” with its world-known Terra Cotta warriors and horses (Xian Tourism Guide, 2008). Xian holds 0.61 million households with a monthly income of over RMB 3 500 and around 10% of the inhabitants travel abroad more than once a year (KPMG, 2008). Xian is the third most popular tourist resort in China after Beijing and Shanghai (China highlights, 2008). Armani, Chanel, Dior and Gucci are some luxury brands that are already established in the city (Chevalier & Lu, 2010).

Nanjing, the capital of Jiangsu Province is situated in the Yangtze River Delta economic zone, one of the largest economic zones of China. For many years, Nanjing has been a national cultural center in the sense of art, tourism, festival and entertainment. The city government is aiming to improve the desirability of the city to further attract foreign investment and stimulate local innovation (Jiangsu.net, 2011). Nanjing has 1.87 million households with an income of over RMB 3 500 per month, and 22% of the population travel overseas at least once a year (KPMG, 2008). Luxury brands such as Armani, Bulgari, Dior and Louis Vuitton are established in Nanjing (Chevalier & Lu, 2010).

Wenzhou has experienced a rapid economic growth over the last 20 years, where the net income per capita from 1978 to 2006 has increased from RMB 113,5 RMB to RMB 7 543. The business people in the city are well recognized for their entrepreneurialism in China, where around 90% of the businesses are private-owned. One third of all the traveling Chinese come from Wenzhou and there is a high number of wealthy households. Luxury brands such as Louis Vuitton, D&G and Salvatore Ferragamo are established in the city to compete for market shares (WWD, 2010).

Fuzhou is located in the lower east part of China, facing Taiwan. As the city dates back over 2 000 years, it is both a historic and cultural city. Because of its history, many art-related industries are present in Fuzhou (TravelChinaGuide, 2011). Because of its location, the city has a great deal of business with Taiwan and it is claimed that a lot of young, wealthy businessmen are the residents of Fuzhou (WWD, 2010). 0.53 million have a household monthly income of over RMB 3 500 and 12% of the population travel abroad (KPMG, 2008). Louis Vuitton (2011) as well as Gucci (2011) have stores located in the city.

Taiyuan is nicknamed the military fortress since the city is located in a valley basin between two mountains in the northern region of China. The city has numerous industries such as machinery and chemicals, electronics, building etc., and is a key city in commercial and handicrafts industries in north China (Taiyuan China, 2011). Of the 3.45 million residents in Taiyuan, there are 2.79 million inhabitants living in urban areas. The city had an economic growth rate of 11.5% in 2006 (Echinacities, 2011). Louis Vuitton (2011) and Gucci (2011) have stores in Taiyuan.

	GDP (million) RMB	GDP per capita RMB	Retail sales of consumer goods (million) RMB	Population	Recommended by
Xian	145, 002 (31)	17, 794 (36)	77,620 (22)	8,230 (11)	KPMG Chevalier & Lu
Nanjing	277, 400 (13)	39, 379 (16)	116, 685 (8)	7,190 (17)	KPMG Chevalier & Lu
Wenzhou	183, 438 (25)	24, 349 (30)	77, 915 (21)	7,564 (12)	McKinsey Chevalier & Lu
Fuzhou	165, 694 (28)	25, 100 (29)	77, 553 (24)	6, 600 (21)	KPMG Chevalier & Lu
Taiyuan	101, 338 (34)	29, 497 (24)	43, 647 (33)	3,442 (37)	McKinsey Chevalier & Lu

Source: Chevalier & Lu (2010)

Figure 5.4 Information on the five cities

5.3.3 Analysis: Five cities with high potential

Historically, companies within different industries seek to establish themselves in coastal cities rather than inland cities of China. Luxury brands have followed the same path as coastal cities are more industrialized due to benefits from trade. This is an overall trend and can be noticed as the majority of cities recommended by KPMG (2008) and McKinsey (2011) are situated near coastal areas. What is becoming more distinct is that along with modernization involving developed infrastructure and increased urbanization, several inland cities are starting to rise up as important hub areas. The cities of our recommendation are among many others that should be accounted for, not only by luxury brands but companies within different industry sectors in general. Industrial development in these cities is the main drive to the growth in consumption which increases in line with the growth in household income.

The five cities chosen have specific features that make them particularly lucrative for brands to be established in. Out of the five chosen cities, *Xian* has a distinctively lower GDP per capita; ranked 36 out of 41, (see the brackets in figure 5.4). This may be affected by the fact that the city has the largest population of the five. *Xian* with an abundance of tourists, both native and foreign, is an important city for luxury brands to be present in as the travelling consumers will notice whether or not a brand is established there. This is vital in order to strengthen brand awareness among potential customers.

Nanjing is the city which has the highest GDP and GDP per capita, and is ranked in the top 20 far above the other four cities. While the city's population is the median of the five, the GDP is significantly high, which can partly be explained by the fact that the city is located in one of the largest economic zones in China. Of the 11 cities defined as tier two cities according to KPMG (2008), *Nanjing* holds the highest number of million households with an income over RMB 3 500 per month, accounting for a total of 1.87 million. This pace will surely not slow

down as McKinsey has placed Nanjing as one of the nine largest markets in addition to Guangzhou, due to its potentially growing middle-class.

Wenzhou and *Fuzhou* have many points in common; they are ranked almost subsequently to each other both in GDP and GDP per capita. The cities have a significant proportion of business people, where for example luxury brands with a sophisticated formal clothing line, presumably targeting the business elites should consider setting up there. This does not imply that other luxury brands will not be able to gain benefits from these two cities, as there are naturally other segments of customer segments presented as well. Furthermore, if a brand has high brand awareness in a city where there are many traveling Chinese, the probability of them purchasing luxury products from the same brand overseas is high, as in the case of *Wenzhou*. These traveling consumers can sometimes act as trend-setters, as other luxury customers acknowledge their choice of brand and products which have been influenced by Western visits.

Taiyuan is an interesting city, in that it has the lowest rate in GDP, retail sales of consumer goods and population. GDP per capita is nevertheless the second highest among the five cities. This is because of a relative high GDP in relation to the population rate which is only half of the average compared with the other four cities. For its rather small population, ranked 37 out of 41, around 80% of the population lives in the urban areas. This indicates that the majority of the population is probably employees and work in the many different industries that exist in the city.

We consider that the increase in purchase power of the growing middle-class is the primary CSA that China hold which is significant to the luxury industry. Each one of the five cities holds a consumer base which comprises different kinds of potential customers including business people, wealthier households etc. Thus, the cities provide the industry with different forms of location-specific advantages. Country-specific advantages are referred as location-specific advantages in our conceptual framework, they could however, be viewed from two different perspectives, both at the nation level and specifically to a location. Naturally, there are numerous cities in China that luxury brands can consider for their expansion. When assessing the five cities, the number of plausible consumers, the proportion of middle-class households and its growth potential, and competitors that are already established in the cities are factors that we have evaluated. Still, it depends on the financial capability of a luxury company which ultimately determines whether it chooses to expand in one or several cities. A luxury brand can start its expansion in one city and gradually carry on to the other cities in course of time, as all the five cities hold location-specific advantages. However, we consider these advantages to be specific to the entire luxury industry and not to any luxury firm in particular as these advantages can be utilized by all brands.

6 Marketing strategies to succeed in the Chinese luxury market

It is stated by Lu (2009) that for the few upcoming decades, the luxury market in China will be dominated by luxury lovers and luxury followers. The signature products such as Louis Vuitton bags, Lacoste polo shirts, Omega and Rolex watches etc. will maintain its strong presence, as these goods have become a symbolic label of social success. However, the group of luxury intellectuals is assessed to grow, and it's more sophisticated, less conspicuous need is a force to an increased demand for luxury goods that are strongly rooted in the Chinese culture and taste. This will affect and drive the luxury industry to develop more sophisticated products, new technologies and new inspirational designs. To maintain this sustainable growth within the Chinese market, the product portfolio of luxury houses should be rich, complete and fulfilling the needs of these three segments of consumers. Thus, it is significant to have product lines that are consistent with their brand values and that match the preferences and tastes of the Chinese consumers which are heavily influenced by the Chinese culture (ibid.).

6.1 International marketing integrated with local values

A survey conducted by McKinsey (2011) indicates that the Chinese consumers want their rich cultural heritage to be reflected in the labels and new product designs. While a great deal of the customers appreciate products with international heritage, a third of the surveyed consumers would value luxury goods that incorporate Chinese imagery and are designed specifically for China. This is particularly valid among emerging middle class consumers. Companies such as Hermès have responded by a recent launch of a Chinese brand named Shang Xia. The brand is developed by a Chinese team in China with a store located in Shanghai and new openings planned for Beijing and possibly Paris. The intention is to sell a wide range of Chinese designed products with mainly Chinese craftsmanship at a price level that is two to three times lower than Hermès. The aim is to better target the young and upper middle class consumers. Still, this phenomenon within the luxury industry is rather new, and implies increased management control as well as the degree of local product tailoring which is higher than most luxury brands are experienced with (ibid.).

International luxury brands with high brand awareness represent the European and American cultures, which involve high living conditions, and production and design with good quality. All these features can be readily accepted by the Chinese consumers who in current trends have a positive attitude toward the Western lifestyle. However, products face the risk of not being completely accepted as they can be seen as exotic by local consumers who have their own values. Tackling this issue would imply more integration of Asian values into the marketing communication. The use of more Asian images in advertising and Asian models in fashion shows etc. would be a step in the right direction and help overcome strong cultural barriers. An example is when Louis Vuitton in 2007 sets Du Juan, a Chinese top model as the

face for one of its advertising campaigns worldwide. This kind of strategy creates strong attachments with Asian consumers as it helps them to accept brands with their own characteristic cultures (Lu, 2009).

Using celebrities in advertisement can be successful as long as the image of the person is appropriate for the brand value. Since customers relate the celebrity in the advertisement with the brand, choosing the wrong representative can damage the brand image. Chinese consumers are searching for social success and accomplishment, which are two dimensions that advertisements should communicate. (Chevalier & Lu, 2010) In addition, showing respect for the Chinese culture is essential to doing business in China. Lu (2009) claims that the luxury houses should integrate more cultural and artistic features in addition to their fashion shows, product launches and other regular events. He further argues that sponsoring elegant artistic or sport events is also an attractive choice. Being associated with such events will bring the relation between the brands and consumers beyond just commercial as it provides both the consumers and potential consumers a chance of direct personal contact with the brand and its history and values. The Olympic Games in Beijing and the World Expo in Shanghai were exemplary opportunities for luxury brands to be involved in and associated with. It creates a promising image in the mind of consumers which considerably will generate positive sales and market share (ibid.).

6.2 Advertising

The prior media used by luxury brands are magazine, newspapers and outdoor media. There are many local journals in China, where the major fashion magazines are Ruili and Xinwei. In the business area there are China Entrepreneur, 21st Century Business Herald and Economic Observer etc. Other influential lifestyle magazines are Tatler, Noblesse, Modern Weekly, and Vision. Elle China, the first international magazine to enter China is the official magazine of fashion, beauty and lifestyle, where the main readers consist of young, well-educated and affluent females. The local fashion magazine, Ruili is appropriate if a luxury brand wants to be seen nationwide (Chevalier & Lu, 2010).

Lu (2009) states however that the mass market communication channels should be avoided. Despite the fact that luxury brands are often linked with fashion magazines such as Vogue, Elle, Cosmopolitan etc., it is nevertheless not an effective way for luxury brands to reach their target consumer groups through advertising in these magazines. The readers of these magazines are of lower middle class or students with a luxury dream and eagerness to know more about the legendary brand stories. The marketing communication that is considered to be more appropriate and effective is for luxury brands to invest in magazines with a focus on cultural, social aspects and a high-end lifestyle for example, Chinese National Geographic, Yachting etc. Financial journals or travel and airline magazines available to first-class guests are also optimal choices as the readers are considered to more likely be consumers of luxury goods (ibid.).

Television as a medium to advertise a luxury brand is more common in the sectors of

cosmetics, wine and spirits. The sectors of ready-to-wear and accessories rarely use television, as the costs to do so outweigh the advantages. Free news coverage of fashion shows and promotional events is more profitable and preferable. Luxury brands could also put advertisements in different kinds of outdoor media. JCDecaux, the leading company in outdoor advertising in Europe and Asia-Pacific, covers more than 22 cities in China including Hong Kong and Macau. The company has a diversified outdoor media network consisting of covers on metros, buses, airports, street furniture and campus advertising (Chevalier & Lu, 2010).

6.3 Selective retailing

A luxury brand must be international according to Chevalier & Mazzalovo (2008). A brand with a store located in luxury landmark areas creates a sense of importance and builds its brand identity in the market. The luxury positioning will be strengthened if the boutiques are visible to a lot of people in major fashion cities. This perception is also accurate in China. For the time being, major cities such as Shanghai, Beijing, Hangzhou and Guangzhou are the best locations to build brand images and to reach the target consumer groups. The high-end commercial centers and shopping malls are frequently visited by luxury lovers, luxury followers and luxury intellectuals. Thus, investments in stores are the most effective way to generate sales and build a loyal customer base. The most ideal way to make a statement of success would be to have impressive flagship stores either around Plaza 66 or on the Bund area of Shanghai, the most international and fashionable city of China. Still, this alone is hardly enough. Well-selected networks both in the northern part and midland China should be considered since there are as already described, several upcoming cities with immense potential purchase power for luxury brands to target (Lu, 2009).

According to the study by McKinsey (2011), two out of three consumers are continuing to be disappointed by the sales staff in the stores with their indifferent attitudes. The unsatisfactory delivery on service is an issue to take into consideration as the study showed that the importance of service attitude has risen to 30% in 2010 compared to 17% in 2008. The key is to deploy sales staffs that exhibit a high level of patience with Chinese shoppers as they prefer to linger in the store. The sales staff should also be familiar with the latest fashion trends and are helpful without applying sales pressure to the customers. To ensure the desired good performances from sales staffs, their compensation would not be tied to store sales. Better training would also benefit the focus on educating consumers about the brand and developing deeper long-term customer relationships (ibid.).

6.4 Digital marketing

The shopping experience in stores is still by far the main influence to a consumer's purchase decision. The Internet nevertheless has rapidly become highly important. Consumers in China spend a lot of time searching and collecting information about the brand and product, accumulating and comparing others' reviews of the product that they have set their minds on buying. There are several social networking sites in China that often provide this kind of information such as Kaixin, RenRen or Youku etc. An effective marketing strategy would be

for brands to work with social media agencies to more easily monitor and respond to the interchange of online conversations among consumers. With the help of agencies, luxury brands have started to recognize the importance in identifying and reaching out to influential fashion bloggers. It is significant to educate them more about the brand as they are impactful potential brand ambassadors (ibid.).

6.5 Analysis: Locally adapted marketing-mix

Due to the fact that the value and culture of a luxury brand are the core characteristics of a luxury product, the marketing strategy tends to follow a standardized procedure internationally rather than being locally adapted. We consider it important for luxury brands in China to seek a balance between brand values and the local cultures and values.

The international marketing strategies consisting of the four fundamental P's - Product, Price, Promotion and Place, should be integrated in the marketing strategy of a luxury brand operating in China, forming a successful marketing-mix. Focusing on at least one or two P's will permit the company to have an advantage over its competitor and result in marketing capabilities that are specific to the firm. An exemplary case is Hermès cooperating with a Chinese creator to launch a Chinese luxury brand with locally adapted products. This provides the company with a greater knowledge of the Chinese culture and values. Additionally, Hermès will have a competitive advantage over its competitors, being already accustomed to the Chinese market as it is only a matter of time before local luxury creators emerge and seek to compete for the Chinese luxury consumers.

Lu (2009) argues that luxury brands should stay away from the usual communication channels such as common fashion magazines. However, we believe that maintaining a presence in different medias to breed a potential market is necessary. In a country like China, it is particularly important as surveys indicate that there are many potential consumers of luxury products in the future. Advertising in magazines that Lu (2009) considers as non-effective in reaching the main consumer target, is in our opinion an effective way to influence and persuade students and the lower middle class at an early stage, as they will presumably be the future luxury consumers. Further on, using local rather than Western celebrities in advertisements is naturally more favourable as the Chinese consumers can more easily relate to the Chinese models and celebrities. Many consumers in China buy luxury products as a confirmation of social accomplishment and success, and the image of a celebrity in advertisements is a proper display of someone that has worked hard to achieve high goals.

Digital marketing, in other words, the Internet has become a medium that has received a lot of attention. It is one of the most effective ways of advertising as it reaches out to a large public and the interaction between the company and the customers is fairly easy. The Internet works as an important display for all kind of products, not at least for luxury goods. The customer can take time to navigate the website of luxury brands to get to know more about them and their products. A website that is easily navigated and the option of several languages is highly vital for a luxury company. In addition, many luxury firms offer e-shopping on their websites,

for example Burberry, Gucci, and Armani. We believe that when buying luxury products, the whole experience of entering a beautiful luxury store that offers excellent service is significant, and this is not provided when purchasing luxury products via the Internet. Evidently, the share of e-commerce for luxury products is increasing as it is a comfortable and convenient way to buy products. For residents in smaller cities where a desired luxury store is not present, or perhaps not all products are available in stores, the opportunity to purchase via the Internet is highly appreciated. The disadvantages of e-shopping would be if a product does not live up to the expectations, or it gets damaged during transport or problems occur with payments etc. Hence, the experience of e-shopping needs to be of the same standard of shopping as in stores, if not better, as the risks of consumers getting disappointed are high.

7 Case study and analysis of Burberry

In order to show exemplary cases of how successful international luxury brands have made establishments in China, we have chosen to do a case study of the luxury brand Burberry. The theoretical frameworks will be applied, where we will analyze the firm-specific advantages, country-specific advantages and certain internationalization-specific advantages of the company. Successful marketing strategies in China made by Burberry will be emphasized, to provide other luxury brands examples of how to approach the Chinese market. Burberry has been chosen since it is one of the few luxury companies listed on the stock exchange. Thus, there is available information from annual reports that we can employ.

7.1 Burberry's background

In 1856, the founder Thomas Burberry started out with a small opening of an outfitters shop in Hamshire, England. The brand Burberry became well-known for its innovation of the “gabardine” fabric that was waterproof but breathable and resistant to tearing. The British military in the early 1990's was in need of this kind of fabric and it provided Burberry the opportunity to design an army officer's raincoat, which later on became the standard service uniform. The raincoat was subsequently developed and named the “Trench coat” with the iconic Burberry check on the lining (Moore & Birtwistle, 2004).

Looking through Burberry's annual report in 2006, 150 years after its establishment, the company has grown to be an internationally recognized luxury brand with distribution networks worldwide. The operations of the Group involve designing, sourcing, marketing, licensing and distributing a wide range of luxury goods for women, men and children. The products that Burberry offers maintain allure to costumers, both across age groups and genders. The company holds a balanced product portfolio including ready-to-wear, accessories and other lifestyle products. In the ready-to-wear section, outerwear is a core part of the product offering with the Burberry trench coat as a brand icon recognized worldwide. Accessories include well-designed handbags, silks, shoes, umbrellas and cashmere scarves which also hold the iconic Burberry trademark check. The segment of lifestyle products including fragrance, eyewear, timepieces, are categories outside the company's primary expertise, where the Group uses a combination of its own skills and competence of licensing partners. Areas of design, manufacture and distribution of products are carried out under the Burberry brand (Burberry, 2006).

7.2 Burberry's FSAs and CSAs

According to Rugman's (2005) FSAs-CSAs framework, firm-specific advantages can take the form of intangible assets. Well-established trademarks and brand names are accounted as valuable firm-specific advantages, which is the case for most luxury brands. Burberry's (2010) portfolio of brand icons including the internationally recognized trademark check and Prorsum horse logo are preeminent firm-specific advantages that the Group possesses. Not to

mention the 'Trench coat' as a brand icon which is strongly related with the brand Burberry within the luxury industry? The rich heritage associated with Britain which Burberry holds can be considered a significant firm-specific advantage where its customers can relate to the deep culture and values that the brand embraces. Additionally, the company has a multi-category competence in designing womenswear, menswear, childrenswear and non-apparel products, where Burberry holds good knowledge on outerwear in particular. Over half of the company's sales are from the category outerwear, where Burberry is top-of-mind among luxury customers (ibid.). The specific advantages of the Burberry spirit and heritage are important principles to be spread throughout the organization and the value-chain, as well as being permeated in every individual and product.

A country-specific advantage for Burberry in China is the demand condition, where there has been a rapid growth in demand for Burberry products in recent years. This is indicated by the fact that the company has heavily increased their retail operations in China. In 2006, Burberry (2010) had 33 stores and concessions compared to 50 in 2010. This signifies that the company has adjusted to the potential growth in China by strengthening its presence there to be more responsive to the demand. Burberry has a significant customer base in China, but sales are not only generated from domestic customers. Establishing a strong presence in China will enhance its brand awareness which will increase purchases of Burberry products of overseas traveling consumers. Considering the important share of the firm's sales which is gained from traveling customers worldwide, where Chinese customers make up for a large group, it provides the company with a demand condition that is country-specific. However, economic factors such as the financial crisis in 2008 affected the global market of the luxury industry. Burberry as no exception experienced a decline in purchases from traveling customers that affected the trading results (ibid.). Furthermore, Burberry mentions in its annual report 2010 that political regime or tax and fiscal regulations in emerging markets are risks, as they could be changed promptly and be adopted unpredictably or in an inconsistent manner. As Rugman states, in relation to poor CSAs, a company should hold strong FSAs, which could be the case for many luxury brands establishing in China. Luxury brands enter China for its market size, and growth opportunities that comprise the 'new riche' and potentially growing cities. Therefore, it is essential for every luxury brand that wants to succeed in China to possess strong FSAs, in order to distinguish itself from its competitors and thus, be in possession of the specific CSAs. With developed CSAs, the brand's survival, profitability and growth will be enhanced, which has been the case for Burberry (ibid.).

Today, Burberry has 57 stores in China (Vogue, 2011). Until recently, the stores were operated by a franchise partner due to the lack of experience that the company has in the region (Burberry, 2010). Last year, Burberry made the decision to buy out its franchisees in mainland China. This is a step in the internalization process which Burberry is conducting, where licensing and franchises are judged as impracticable or unprofitable. Acquiring all the stores in mainland China will give Burberry more control over the merchandise and marketing activities. The buyout will switch the earnings from wholesale to retail, which implies an additional £20 million in profits to the Group (BBC News, 2010). When luxury brands fully own their retail stores, it provides them more control and transparency throughout the lengths

of their own activities. Stocking and delivering of merchandise can be optimized; promotion and distribution strategies can be arranged in the most efficient way according to the brands' firm-specific advantages. However, for smaller luxury brands with limited resources and a desire to develop fast internationally, licensing and franchising are very common internalization strategies. It is less costly, since capital is not tied to long-term locale rents for stores and inventory (Chevalier & Mazzalovo, 2008).

Through foreign activities, Burberry as well as other brands can enhance the company's global market position by an improved efficiency or by attaining new sources of competitive advantages. Since internationalization is fundamental for luxury brands, different incentives for foreign MNC activities can be defined, where the market-seeker is one approach. Apart from the market size and potential market growth, one reason is that products need to be adapted to local needs and preferences (Dunning & Lundan, 2008). We believe that weather can be a significant factor for Burberry and which affect their important sales of outerwear. As this is the best selling product category of Burberry, it needs to be locally adapted to the weather in Asia. Burberry (2010) admits that the company has a lack of experience in China and has therefore chosen to cooperate with a third-party operator with more expertise in the business customs, language, legal requirements and marketing procedures. In addition, a significant motive for a brand to engage in market-seeking investments is the necessity for major luxury brands to be present in global emerging markets like China, which makes up for an important part of the global luxury market (Dunning & Lundan, 2008). This will intensify the competition between luxury brands in key markets, where Burberry points out that the company is in fact facing increasing competition in many product segments and different markets (Burberry, 2010).

7.3 Burberry's marketing strategy

The following sections will comprise a deeper review on the marketing communication of Burberry in terms of its product, price, promotion and place strategy. The company is set as an exemplary case where we will draw conclusions of how other luxury brands can carry out their expansion process within a market as vast and varied as China.

7.3.1 Product strategy

Product strategies are considerably the most crucial as the balance between global and local is a challenging decision. Burberry (2010) has positioned itself as an authentic British lifestyle brand with a wide array of products which are classified as either continuity or seasonal. The classic Burberry trench coat has high continuity with a long life-span and is sold year after year while seasonal products are included in solitary collections for specific seasons (ibid.).

Burberry (2010) has a multi-brand approach which provides the company with extensive market coverage and attracts a broad customer base. The business is balanced between non-apparel, womenswear, menswear and the childrenswear segment which is small but with high growth potential. Burberry's non-apparel division incorporates a wide array of accessories and has become a significant part of its business. Handbags, scarves, shoes and other leather

goods are included in the accessories category where handbags represent the largest category by turnover. Additional product categories comprise fragrance, eyewear and timepieces which are manufactured under license and are all marketed under the Burberry brand name (ibid.).

There is a product hierarchy within Burberry's (2010) product offering where each component has a unique branding and a distinctive identity (see figure 7.1). At the top is *Burberry Prorsum*, a range of high fashion/couture collection designed for runway shows each year and it provides design inspirations for other ranges. The demand for exclusivity among affluent consumers is satisfied by goods produced in limited quantities (ibid.). We believe that this product segment is highly attractive to the customer group business elites as it satisfies their sophisticated taste and suits their wish for more advanced luxury consumption. The middle of the pyramid is *Burberry London*, the ready-to-wear range for men and women on their weekdays for work (ibid.). We believe that this product segment responds to the demand of the new luxury shoppers and empowered females, where these consumer groups consist of a large proportion of entrepreneurs and businessmen and -women. This middle product range is also well positioned for the upcoming 'new riches'. The base of the pyramid is *Burberry Brit*, a range of casual wear capturing what a Burberry customer might wear on weekends (ibid.). We consider the targeted consumer groups for this product segment to be the empowered females and little emperors. The newly independent women and the younger, rather spoiled generation desire a degree of social stratification which can be attained by purchasing the first level luxury products. As they gradually increase their accomplishments in life, they will be able to trade up in the pyramid.

The three ranges of products are in balance across the pyramid to drive sales and thus profitability. The core category outerwear comes across all three ranges as Burberry continues to innovate and diversify this section. In the spring/summer collection of 2010, distinctive attributes between Burberry London and Burberry Brit was introduced when the ranges were relabeled. Different branding strategies were adopted as Burberry London uses Beat check and tonal check whereas Burberry Brit makes use of the core iconic check, but with more innovative and contemporary versions (ibid.).

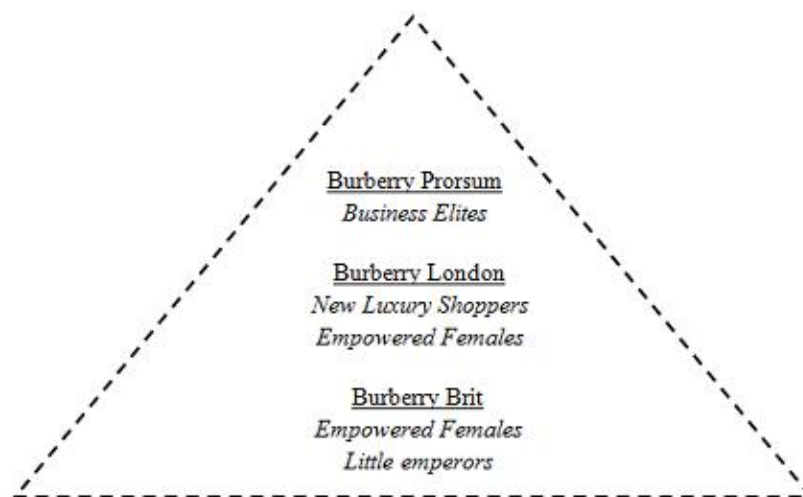


Figure 7.1 Product hierarchy of Burberry

7.3.2 Pricing strategy

The product hierarchy of the Burberry lines indicates a somewhat different pricing strategy, where the most exclusive luxury line is Burberry Prorsum. Considering the growing middle class that still receive a limited monthly income, Burberry Brit offers a first level of social stratification, where the Chinese consumers can trade up to buy London Prorsum when they are at the top of their career. As social success and accomplishment are the two most important dimensions of luxury for the Chinese consumers, Burberry's hierarchy pyramid responds to it very well. Another factor affecting the pricing strategy of luxury brands in China is the value-added taxes that imply up to 35% higher prices on luxury products in mainland China compared to duty-free Hong Kong (Chevalier & Lu, 2010). Since luxury products are less expensive overseas, many Chinese consumers purchase luxury goods when traveling abroad and thus contribute to a significant proportion of Burberry's sales outside mainland China. Additionally, losses due to currency fluctuations reflect either an increase in the price paid by the final consumer or absorbed by the company itself. Burberry applies the latter one, where currency fluctuations will influence the result and profitability of the firm (Burberry, 2010).

7.3.3 Promotion strategy

To develop and sustain its brand image and value, Burberry has identified the importance of active marketing communications which includes integrated advertising, PR and communication functions. The focus is on building and advancing brand awareness through both traditional and digital media. Simon Gresham Jones, the head of Xbox.com EMEA at Microsoft joined Burberry in 2009 as the director of digital marketing. The aim was to further promote the Burberry brand online, with an intention is to spend 20% of its total marketing budget on digital marketing, in comparison to 1,5% in 2008 (New Media Age, 2009).

Examples of success for the company in the digital media arena is the live streaming of the Spring 2010 show which for the first time allowed consumers worldwide to share the full experience of a Burberry fashion show (Vogue, 2011). A further approach was the Autumn 2010 show which was live streamed in 3D to five locations around the world. Yet another first for the luxury industry was the webcast which allowed consumers to purchase runway items for expedited delivery (Burberry, 2010). Another highlight in 2010 was the launch of *www.artofthetrench.com*, a social media website with the aim of introducing the iconic trench coat to the digital generation and attract new, younger customers to the Burberry brand. In order to create new communities of interest, the brand has established a leading presence across different social media platforms, for instance on Facebook, Burberry is the leading luxury brand with over one million fans (ibid.). In China, the Group is launched on four Chinese social media platforms; Kaixin, Douban, Youku and Sina Weibo, where they are used to promote the flagship-store opening of the brand (The Pulse, 2011). The outlook in the future for the Group is to increase investment in areas such as digital commerce where the focus is to build a global platform for online sales and enhance digital marketing and content capabilities (Burberry, 2010).

Burberry aims to establish “a clear leadership position among luxury brands in the digital arena”, expressed the chairman John Peace (Burberry, 2010; 9). During the opening of the flagship store in Beijing, the Group used modern high-tech digital hologram projections of its fashion show together with animation technology. This was accompanied by a live performance by the British band Keane and top models wearing creations of the brand (Vogue, 2011). With this exceptional digital show, Burberry’s objective was to attract younger customers and give the brand a modern appeal. All the stores in China will be supplied with touch-screen displays and Apple ipads to make the whole Burberry collection available to the customers (The luxury project, 2011). As this strategy is still in its implementation stage and Burberry is among the few brands making this approach, it is difficult to determine whether any firm-specific advantages in the digital arena have been established yet.

7.3.4 Place (distribution) strategy

Burberry uses a mix of distribution channels including retail stores and concessions, wholesale, outlets, licensing and e-commerce. In the annual report of 2010, 58% of the revenue comes from retail stores, concessions in department stores and outlets as well as e-commerce. In the same year, Burberry had achieved 60% in growth in e-commerce which the company offers in 27 countries. 34% of the revenue comes from wholesale which consists of sales to exclusive department stores, special retailers and to its 97 stores operated by franchise partners. Licensing contributes to a smaller proportion of the revenue, 8% are the royalty incomes received from Burberrys’ licensees in Japan and worldwide licensees of non-apparel products including fragrance, eyewear, timepiece and childrenswear. Burberry declares that its result and profitability can be affected by the fact that they are unable to fully control its wholesale and license distribution channels. The Group makes regular controls on its distribution networks to ensure that the products are being sold in the right environment. However, regulatory, legal or other constraints can make Burberry incapable of investigating

whether the products are sold in a consistent manner to prevent damage of the brand value (ibid.).

As for today, the Burberry stores in China are no longer operated by franchisees. Among its 57 stores, the brand is established in the five recommended cities with one store in Xian, Nanjing, Fuzhou and Taiyuan and two stores in Wenzhou (Louis Vuitton, 2011). This strengthens our statement that the five recommended cities are of high potential and should be considered by luxury brands if they seek to expand their operations in the Chinese market. By being present in these cities, it indicates that Burberry wants to establish solid brand awareness and is well-committed in conquering the market in China.

8 Conclusion and implications

8.1 Potential opportunities

In several aspects, the market in China is desirable for many luxury brands. Not only is the quantity of wealthy people in China growing at a rapid pace, but their desire for status is a drive to the increase in willingness to spend on costly items. There are vast opportunities for luxury brands to consider when they choose to expand in China. The aspects of consumers and cities are important CSAs that the Chinese market can provide the luxury industry.

8.1.1 Consumers

There are important demographic and psychographic variables to take into consideration in the aspect of luxury consumers. The four main consumer groups identified demographically are likely to grow to become the foundation to the luxury customer base in China. The four consumer segments from the psychographic view indicate different ways of how a consumer reasons before a luxury purchase. Disparities in values, preferences, lifestyle and attitude towards luxury are reflected in their choice of consumption. There are no indications of which of these groups will be the main force to China's increase in luxury consumption, it is rather expected that all four groups, both in the aspects of demographic and psychographic views, are accounted as the targets for luxury brands to focus on.

In our effort to combine both the demographic and psychographic factors, we have found certain similarities across the different views based on two dimensions, rational vs. impulsive and individualistic vs. collectivistic. The result was that the consumer behaviours of the business elites are most related to luxury intellectuals, where they are less conspicuous and rational in their demand of more value for money. The new luxury shoppers are characterized by a younger generation with an optimistic mindset, which makes them impulsive rather than rational. Thus, their consumer behaviour can either reflect as luxury laggards, being opportunistic buyers, or luxury followers who chase for trends. Due to insufficient information on the empowered females, a relation with the psychographic views has not been drawn as they could possibly fit into each one of the groups. The little emperors are defined as the most conspicuous group, which results in a consumer behaviour affected by trends and advertisements, and reflects the psychographic views of luxury lovers or luxury followers. The different groups from the demographic views form a possible customer base of which a luxury company can have, while the four psychographic views should be the starting point when a luxury brand formulates its marketing strategies.

8.1.2 Cities

Significant for all five cities is that several major luxury brands are already established there, and this indicates that they see a great potential. For medium or smaller luxury brands that are planning to invest in new retail stores, these cities should be considered in the upcoming future, as a late entering could imply difficulties in winning over customers. The established major brands in these cities are limited, so there are opportunities for other luxury brands to

gain market shares. Hence, there is a initiation of luxury consumption but the markets are far from being saturated.

There are several cities in China that have initiated consumption in luxury and have the potential to become major fashion cities. The five cities that we have chosen; Xian, Nanjing, Wenzhou, Fuzhou and Taiyuan, are among many cities that luxury brands can consider if they seek to have a solid foothold in the Chinese market. By only being present in major cities such as Beijing and Shanghai are not strong enough to sustain an overall solid brand awareness which is important when a luxury brand wants to maintain its competitiveness. The cities we have recommended are under constant development with an anticipated increase in household income in the upcoming future. Nanjing is the city which came across as slightly superior with a greater portion of household income over the middle range. A finding from our study regarding potential cities in China is that in the past, the coastal cities have been in focus due to their location near the East China Sea. However, with the increasing modernization of China, significant inland industrial cities have emerged and recognized a rise in GDP. For instance Xian and Taiyuan that is included in our recommended cities. Some main characteristics of the chosen five cities are listed below;

- Xian has the largest market size and is an attractive tourist city.
- Nanjing is a city located in a large economic zone and offers a vast market with wealthy households.
- Wenzhou and Fuzhou have a large market size with a slightly lower income average, but holds a great portion of business people.
- Taiyuan consists of a small population and the highest GDP per capita of the five.

8.2 Possible strategies in the aspect of marketing

When a luxury brand formulates its marketing strategies, the firm-specific advantages should be highlighted in all the four fundamental pillars; Product, Price, Promotion and Place, creating an optimal marketing-mix. To capture the consumers, factors to consider when a luxury brand forms its product strategy are to create signature products with excellent quality and functionality to attract luxury intellectuals and luxury laggards but at the same time, be advance with product innovations to allure the other segment such as luxury lovers and luxury followers. We believe that a true successful brand has products that fulfill the needs of all four segments of a consumer group. This is important in order to have a well-balanced and diversified customer base. Hence, the brand will be under steady pressure and anticipation from its customers which will drive it to be more innovative, not only by coming up with new products and models but as well in developing its already established trademarks to be more competitive.

We consider that focus on the integration of Chinese values with one's brand value and heritage should be highlighted. Clearly, it is important if a brand wants to be successfully established and fully accepted by the Chinese consumers. Example from Louis Vuitton in China, when compromising its brand values with local values by integrating local market

elements into its international marketing communications has proven to be successful. Another example is Hermès with its Chinese brand Shang Xia which has provided the company a steady advantage ahead of its current and future competitors, as we believe that apart from international luxury brands, many Chinese luxury brands will emerge in the forthcoming decades, making the competition of the luxury market in China more intensified. We further believe that the increase in the Internet use should be seen as a great opportunity for brands to promote its products and interact with its customers. It is nevertheless essential that the interaction comes across easily and it should be value-adding in a way that the customers perceive it as supplementary to the services that the brand provides.

Our study of Burberry has entailed different success factors where the company clearly holds a competitive edge over its competitors. Burberry is established in the five chosen cities and this indicate that the brand is well-committed to establish a strong foothold and a solid brand awareness in China. The strategies of Burberry are representatives that we consider are exemplary for other brands to pursue. Their product strategy comprises a wide array of products with offerings that cover the demand and satisfy the need of a broad customer base. The variety in pricing implies a strategic intent to allure potential consumers with the possibility to trade up or down within these three ranges. In addition, Burberry use a mix of different distribution channels consisting of own stores, franchise partners, retail stores, wholesale and a fraction in licensing. The optimal strategy for any luxury brands is to fully own its stores in order to better control the whole distribution network and the business it conducts. Financial or legal restraints are nevertheless issues that complicate this process. The benefits of operating with a second partner, in foreign countries in particular, are the advantages in cultural aspects, where the knowledge in business customs, consumer values and behaviour are great advantages to hold. This is especially significant in China where the cultural heritage is exceedingly strong.

8.3 Managerial implications

Firms within the luxury industry should have in mind that creating a successful brand and positioning itself among the top players can take years, if not, decades. Loyal luxury consumers desire brands with products which hold a timeless value and strong culture of heritage. The brand value is enhanced only after when consumers truly understand and more appreciate the brand. Moreover, the financial aspect is extremely important, where limited resources will considerably result in limited brand awareness. Luxury consumers expect excellent and magnificent stores, events, promotion etc, and to respond to all these demands claims huge financial investments. Thus, firm within the luxury industry needs to be strategic and search for the most effective way to reach out to its customers. The aim with this thesis is to provide luxury companies in China a study of expansion opportunities and some possible strategies to do so. However, before the expansion, luxury companies should identify their firm-specific advantages, brand values and heritage, as this is the core part of a successful luxury brand. Based on our findings, we argue that managers should have the following aspects in mind;

- When defining its target of consumer segments in China, there are different demographic groups with different consumer behaviours to consider where a luxury brand in a long-term perspective should aim to persuade all segments.
- In the choice between which cities to establish in, apart from looking at the increasing household income, it is important to reflect over the desired customers, the probability to persuade them, and possible market shares that can be gained over its competitors.
- The marketing strategy need to be formulated according to the targeted consumer segments, were the 4 P's; product, price, promotion and place should speak the same aesthetic code.
- When forming advertisement in China, the two dimensions of social accomplishment and success is central, and the use local celebrities should be align with the value and image of the brand.

8.4 Research implications

Academical frameworks are often generalized (Guthrie, 2010), which in certain degree implies that international business theories such as the OLI-paradigm and the CSA-FSA framework are applicable for most of the industries. As mentioned before, luxury products are often referred to various product categories such as clothing, automobiles, hotels etc, and the luxury industry itself is an industry with specific characteristics. Thus, when analyzing our empirical data on the basis of our theoretical framework, we could only find few similarities in relation to the data we have collected. Additionally, generalized theories are very extended and many different factors need to be elaborated in order to fully investigate the research framework. In this regard, we feel that there has been a restriction in time where a complete investigation of political, economical, cultural and financial factors in the Chinese market would have strengthened the choice of our theory. The same is for the case of Burberry; where there has been limited information to fully analyze how the company has adapted their international marketing strategy in the Chinese market. Despite all, we have find similarities between the empirical data and the conceptual frameworks, why we do not reject the chosen theories. However, further studies need to be conducted to fully accept the conceptual frameworks.

8.5 Recommendations for further research

Our study of the internationalization process of luxury brands has been rather limited due to time and financial restrictions, which reduce the opportunity for a more extensive investigation. For future research with longer duration and more financial support, we would recommend a more extended investigation of country-specific advantages that China can provide the luxury industry. Possibly with a focus on production, whether it would be more profitable for luxury brands to have their production centers near one of the largest market of luxury, and what kind of positive and negative affects it would imply.

It would be interesting to look deeper into the internalization advantages; what are the most effective ways for a luxury brand to successfully expand within China? Should it be through franchisees or solely by owning all of its stores or a combination of both? It would be rewarding to carry out interviews with qualified managers from luxury brands with establishments in China to get a more insightful view of their operations there, and in this way, gather data from primary sources. Another approach would be to do case studies of several luxury brands that have succeed well in China, compare their success factors and in this way define the most effective strategies for luxury brands to internalize.

Moreover, a deeper investigation of the firm-specific advantages that a luxury company possesses is also of interest. To look into how smaller luxury companies operating in China enhance their firm-specific advantages, and how these are developed and maintained. When doing our study, we have intentionally left out the issue of counterfeit products in China, a land of the copies. This problem mostly faces the biggest names in the industry, where as a matter of fact, it is only when a brand considers being big or important enough, when its products are being copied. An examination of how counterfeit products affect the success of brands in the Chinese market and whether it affects the firm-specific advantages should be taken into account.

An investigation of the competitive environment in China is also to recommend for further studies, where the competition is an important factor affecting the strategic intentions of luxury brands operating in China. Since there are numerous luxury brands established in China, an evaluation of the market and the companies' positioning in the Chinese market would be of interest. Additionally, we believe that luxury brands from China will emerge in the future. Why it is important to already now search for the potential Chinese luxury brands that will rise and compete with the foreign luxury companies.

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Appendix A

Table 3.1 Estimation of the value of the worldwide luxury market by sector of activities

Estimation of the value of the worldwide luxury market by sector	2007 (billion €)	2008 (billion \$)
Ready-to-wear	20	30
Leather goods and accessories	15	24
Fragrances and cosmetics	30	41
Spirits, champagne and still wines	80	107
Watches	10	16
Jewellery	30	40
Others (including Tableware)	5	7
Total	190	265
	Source: Chevalier, M. & Mazzalovo, G., 2008	Source : Chevalier, M. & Lu, P.X., 2010

Table 3.2 Value of the global luxury market in 2009 divided by sector

Sector of activity	2009	2009 (billion €)
Ready-to-wear	27 %	41,31
Accessories	24 %	36,72
Perfume and cosmetic	24 %	36,72
Hard luxury	19 %	29,07
Art de la table	4 %	6,12
Unknown	2 %	3,06
Total	100 %	153

Source: Bain & Company 2010

Table 3.3 Principal brands divided by country of origin; France and Italy

	France	Italy	
Brands with revenue of more than 500 million euro	Chanel Dior Hermès Louis Vuitton	Armani Dolce & Gabbana Ermenegildo Zegna Gucci	Max Mara Prada Salvatore Ferragamo
Brands with revenue between €100 to €500 million euro	Agnès B Céline Chloé Jean Paul Gaultier Kenzo Lacoste Lanvin Longchamp Sonia Rykiel Yves Saint Laurent	Alberta Ferretti Bottega Veneta Blumarine Brioni Etro Fendi Ferre Furla Krizia La Perla Laura Biagiotti Loro Piana	Les copains Mariela Burani Mariella Rinaldi Marni Missoni Miu Miu Moschino Nazareno Gabrielli Roberto Cavalli Trussardi Valentino Versace

Source: Chevalier, M. & Mazzalovo, G., 2008

Table 3.4 Brands with other origin than France and Italy

USA	United Kingdom	Spain	Germany
Calvin Klein Ralph Lauren Donna Karen Tommy Hilfiger	Burberry Aquascutum Paul Smith Dunhill Daks Jaeger	Escada Hugo Boss Jill Sander Joop	Loewe Purification Garcia Adolfo Dominguez

Source: Chevalier, M. & Mazzalovo, G., 2008

Table 3.5 Top ten of the world's most powerful luxury brands

Luxury brands	Sector of activity	Company value Billion \$
1. Louis Vuitton	Ready-to-Wear & Accessories	19.78
2. Hermès	Ready-to-Wear & Accessories	8.46
3. Gucci	Ready-to-Wear & Accessories	7.59
4. Chanel	Ready-to-Wear & Accessories	5.55
5. Hennessy	Spirits (Cognac)	5.37
6. Rolex	Watches	4.74
7. Moët & Chandon	Champagne	4.28
8. Cartier	Jewelry	9.36
9. Fendi	Ready-to-Wear & Accessories	3.20
10. Tiffany & Co	Jewelry & Accessories	2.38

Source: NYDailyNews. 2011

Table 3.6 Three main groups in the luxury industry with brands in the ready-to-wear and accessories sector

LVMH	Richemont	PPR Gucci
Louis Vuitton Loewe Marc Jacobs Céline Berluti Kenzo Givenchy Fendi Emilio Pucci StefanoBi Thomas Pink Donna Karen	Lancel Chloé Purdey Cartier Alfred Dunhill Azzedine Alaia Shanghai Tang	Gucci Bottega Veneta Yves Saint Laurent Balenciaga Alexander McQueen Sergio Rossi Stella McCartney

Sources: LVMH 2010, Richemont 2011, PPR Gucci 2010.

Appendix B

Table 5.1 Tier one and tier 2 cities

Tier one	Beijing, Shanghai, Guangzhou, Shenzhen
Tier two	Xi'an, Tianjin, Shenyang, Chengdu, Chongqing, Harbin, Dalian, Hangzhou, Nanjing, Fuzhou, Wuhan

Source: KPMG 2008

Table 5.2 Multi-tier system

Tier 1 ‘big four’ (4 cities) <ul style="list-style-type: none"> - Highest income, large population base, largest GDP scale 	Beijing, Shanghai, Guangzhou, Shenzhen
Tier 2a ‘climbers’ (11 cities) <ul style="list-style-type: none"> - Large population, high income and large GDP 	Xi'an, Tianjin, Shenyang, Chengdu, Chongqing, Hangzhou, Nanjing, Foshan, Wuhan, Shantou, Jia'nan
Tier 2b ‘niche’ (10 cities) <ul style="list-style-type: none"> - Wealthy consumer, small overall market size 	Dongguan, Wenzhou, Taizhou, Ningbo, Zhongshan, Suzhou, Xiamen, Changzhou, Wuxi, Zhuhai
Tier 2c ‘mainstream’ (16 cities) <ul style="list-style-type: none"> - Relatively low income, large population base 	Harbin, Dalian, Fuzhou, Qingdao, Changsha, Yantai, Putian, Zibo, Zhengzhou, Taiyuan, Kunming, Tangshan, Changchun, Shijiazhuang, Huai'an, Guiyang
Tier 3a ‘next frontier’ (136 cities) <ul style="list-style-type: none"> - Growing markets with population larger than 1 million 	Urumqi, Linyi, Nanchang, Zhouzhuang, Xuzhou
Tier 3b ‘poor cousins’ (484 cities) <ul style="list-style-type: none"> - Small cities with urban population smaller than 1 million 	

Source: Chevalier, M. & Lu, P.X. 2010

Table 5.3 Ranking based on forecasted growth of household income

Two largest cities	Beijing, Shanghai
Nine large markets	Chongqing, Dongguan, Foshan, Guangzhou, Hangzhou, Nanjing, Shenzhen, Tianjin, Wenzhou
25 developed cities	Xian, Taiyuan, Yantai etc.
Remaining cities (620 cities)	-

Source : McKinsey 2011